

Submitted from you

COST OF FLOTATION FOR SMALL ISSUES 1925 - 1929 AND 1935 - 1938

Report of
RESEARCH AND STATISTICS SECTION OF
THE TRADING AND EXCHANGE DIVISION
to the
SECURITIES AND EXCHANGE
COMMISSION

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NATIONAL LIBRARY OF FINANCE

WASHINGTON, D. C.

This report is based on information and tentative interpretation developed by the staff of the Research and Statistics Section of the Trading and Exchange Division. As such it is not an expression of the official or unofficial views of the Securities and Exchange Commission.

Summary of Findings

For Release in MORNING Newspapers of Saturday, May 4, 1940

SECURITIES AND EXCHANGE COMMISSION
Washington

STATISTICAL SERIES
Release No. 413

The Securities and Exchange Commission today made public a study of the cost of flotation for small issues. The study compares the cost for the period 1935-1938 with that for 1925-1929.

The study calls attention to the fact that no such comparative study has been made for issues of five million dollars and over. It points out, however, that the average cost of flotation for all issues regardless of size in the period 1936-1938 was 2.8 percent of the gross proceeds for bonds, 5.7 percent for preferred stocks and 17.9 percent for common stocks. Compensation paid to underwriters and distributors amounted to 2.1 percent for bonds, 4.9 percent for preferred stocks and 16.4 percent for common stocks. The balance of total cost in each case included all other expenses such as issue taxes, registration fees, legal and accounting expenses, trustees' fees and costs of printing.

The figures show that in no classification does the cost reasonably attributable to the Securities and Exchange Commission (i.e. registration fee plus that share of legal, accounting, printing and other expenses fairly allocable to registration) exceed 1 per cent of the gross proceeds.

Attached is the chapter of the study entitled "Summary of Findings"

SUMMARY OF FINDINGS 1/

Outstanding among the main results disclosed by this study is the fact that cost of flotation for bond issues of less than \$5,000,000 was considerably lower in the 1935-1938 period than in the 1925-1929 period. Compensation to distributors declined substantially and more than offset the rise in other expenses. Cost of flotation for preferred stock issues of less than \$5,000,000, on the contrary, was considerably higher in the 1935-1938 period than in the 1925-1929 period, reflecting increases in both compensation to distributors and in other expenses. Maximum expenses, which might be attributed to registration requirements under the Securities Act averaged about two-thirds of one percent in the case of both bond and preferred stock issues under \$5,000,000 and about one percent for such issues of less than \$1,000,000.

A. Bond Issues of Less Than \$5,000,000

The principal statistical findings concerning the cost of flotation are first summarized for bond issues.

1. Out of each \$100 of gross proceeds (equal to the number of units sold times the offering price) in the 1925-1929 period, \$6 or 6.9 percent had to be paid to cover the cost of flotation. 2/ The proportionate cost of flotation declined to 4.8 percent in the 1935-1938 period.

2. Compensation paid to distributors for their selling services amounted to 5.2 percent in the 1925-1929 period and dropped to 3.4 percent in the 1935-1938 period.

3. Other expenses, which consist largely of professional and mechanical services incident to preparing an issue for the market, averaged 0.8 percent in the 1925-1929 period. Such expenses rose to 1.4 percent in the 1935-1938 period.

4. Compensation to distributors still constitutes the major element in the cost of flotation. Compensation was about six and one-half times as large as other expenses in the 1925-1929 period and approximately four and one-half times as large as other expenses in the 1935-1938 period.

5. Cost of flotation for the very small bond issues (that is, issues under \$1,000,000) remained practically stationary in the two periods, amounting to 6.9 percent in the 1925-1929 period, and 7.0 percent in the 1935-1938 period.

1/ A more detailed description of the statistical findings is presented in Section III, which also includes references to the appropriate tables and charts.

6. Cost of flotation for bond issues ranging between \$1,000,000 and \$5,000,000 in size declined from 5.9 percent in the 1925-1929 period to 4.5 percent in the 1935-1938 period. The reduction in cost was generally greater as the size of issue increased.

7. The general tendency for cost of flotation to decline with an increase in the size of issue, while evidenced in both periods, was much more pronounced in the 1935-1938 period than in the earlier period. For example, in the 1925-1929 period cost of flotation dropped from 6.9 percent for issues of under \$1,000,000 to 5.9 percent for issues of \$1,000,000 or over, whereas in the 1935-1938 period, the comparable decline was from 7.0 percent to 4.5 percent.

8. The substantially lower costs shown in the later period for the larger sized issues resulted wholly from savings in compensation paid to distributors. Compensation declined from 5.2 percent in the 1925-1929 period to 3.2 percent in the 1935-1938 period for issues of \$1,000,000 or over but only from 5.7 percent to 5.0 percent for issues of under \$1,000,000. The increase in other expenses for the two size groups was much the same.

9. Cost of flotation for the very small issuing corporations (that is, companies with assets of under \$1,000,000) was considerably higher in the 1935-1938 period, when it amounted to 9.8 percent, than in the 1925-1929 period, when it was only 7.0 percent. For companies with assets of \$1,000,000 or over, however, cost of flotation was substantially lower in the 1935-1938 period.

10. Cost of flotation was lower in the 1935-1938 period than in the earlier period for all industry groups except the financial group, for which the number of cases in the early period was extremely small. In the two major industry groups, the reduction shown for utilities, namely from 5.6 percent to 4.0 percent, was somewhat greater than the decline of from 6.6 percent to 5.6 percent shown for manufacturing companies.

11. Cost of flotation for issues underwritten (that is, issues distributed pursuant to a purchase agreement) declined from 3.0 percent in the 1925-1929 period to 4.7 percent in the 1935-1938 period. However, a marked increase from 5.8 percent to 7.6 percent was shown for issues distributed pursuant to an agency or option agreement.

12. A study of bond issues for which yield to maturity could be computed indicated that cost of flotation for issues having about the same yield was higher in the 1935-1938 period than in the 1925-1929 period. However, if allowance is made for the substantially lower general level of bond yields in the 1935-1938 period than in the earlier period, it appears that costs for issues of roughly comparable quality were lower in the 1935-1938 period. In both periods costs greatly increased the higher the yield.

in the 1925-1929 period to 1.17 percent in the later period. By far the greatest proportional increase in such expenses was shown for accounting fees, which rose from 0.06 percent to 0.21 percent. Further analysis indicates that expense items partly attributable to registration requirements tended to increase in roughly the same degree irrespective of the size of issue.

B. Preferred Stock Issues of Less Than \$5,000,000 1

1. Cost of flotation for preferred stock issues increased from 7.8 percent in the 1925-1929 period to 10.2 percent in the 1935-1938 period. This reflected advances from 7.1 percent to 8.9 percent in compensation to distributors and from 0.7 percent to 1.3 percent in other expenses.

2. The increase in cost of flotation was much greater for the very small preferred stock issues than for the larger ones. For issues of under \$1,000,000, costs rose from 8.3 percent in the 1925-1929 period to 14.8 percent in the 1935-1938 period, whereas for issues of \$1,000,000 or over there was only a slight advance from 7.7 percent to 8.2 percent.

3. A breakdown of cost of flotation by size of the issuing corporation indicates that for companies with assets of less than \$5,000,000 costs were only slightly higher in the 1935-1938 period than in the earlier period, and that for issues of companies with assets of \$5,000,000 or over costs were considerably lower in the 1935-1938 period. The fact that there was an increase in average costs for all preferred stocks covered in this study, reflected the preponderance of issues of small companies in the 1935-1938 period.

4. Cost of flotation was particularly high for preferred stocks issued by companies with assets of less than \$5,000,000, ranging from around 12 to 16 percent in the two periods. Moreover, the tendency for costs to decline as the size of the issuing corporation became larger was more pronounced for preferred stock issues than for bond issues.

5. A breakdown of cost of flotation for preferred stock issues by industry groups shows that while costs for manufacturing issues rose from 7.8 percent in the 1925-1929 period to 11.1 percent in the 1935-1938 period, costs for utility issues declined from 6.3 percent to 4.3 percent.

6. For preferred stock issues underwritten (that is, distributed pursuant to a purchase agreement) cost of flotation declined from 9.1 percent in the 1925-1929 period to 8.1 percent in the 1935-1938 period. This contrasts with an increase from 5.9 percent to 13.3 percent for issues distributed pursuant to an agency or option agreement.

7. Cost of flotation for preferred stock issues having approximately the same current yield was much higher in the 1935-1938 period than in the 1925-1929 period. This general relationship would still hold even

8. A breakdown of the individual items included in other expenses indicates that the advances in those expense items which are partly attributable to registration requirements were only slightly greater for preferred stocks than for bonds.

C. General Conclusions

In the light of these principal statistical findings covering small bond and preferred stock issues, a few conclusions may be drawn regarding cost of issuance as a factor in the general problem of small scale financing.

1. Cost of flotation for bond issues of less than \$5,000,000 since the pre-depression period has declined to about 5 percent. For preferred stock issues, on the other hand, cost of flotation has increased to about 10 percent. Hence, the cost problem in small scale financing of senior securities chiefly concerns preferred stock issues rather than bond issues.

2. For very small issues, that is, of less than \$1,000,000, not only has cost of flotation in recent years remained comparatively high even in the case of bond issues but has risen to particularly high levels in the case of preferred stock issues. Consequently, the cost problem in small scale senior financing chiefly concerns bond and preferred stock issues of less than \$1,000,000 rather than issues of greater size.

3. Although other expenses have increased in recent years, such expenses (which include not only all costs incident to meeting registration requirements but also a number of other cost elements independent of registration) still constitute much the smaller part of total cost of flotation. Particularly is this true for issues of under \$1,000,000 in size. Thus, the cost problem in small scale senior financing chiefly concerns compensation to distributors rather than other expenses.

In short, the problem of the cost of small scale financing through senior securities largely resolves itself into finding ways and means of reducing compensation paid to distributors primarily in connection with bond and preferred stock issues of less than \$1,000,000, and to a lesser extent with preferred stock issues of \$1,000,000 to \$5,000,000. 1/

* * * * *

1/ From other statistics compiled by the Commission (e.g., see Statistical Series Release No. 133) it is apparent that this statement might also be applied to common stock issues of comparable size.

COST OF FLOTATION FOR SMALL ISSUES
1925-1929 AND 1935-1938

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COST OF FLOTATION FOR SMALL ISSUES 1925-1929 AND 1935-1938

I. INTRODUCTION

In any consideration of the broad problem of small scale financing, it is essential to know how much it costs to float small issues and how such costs may have changed during recent years. The purpose of this study is to present some basic factual data bearing on these questions. Statistics are presented showing the cost of flotation for small issues in the following two periods: 1/

1. The five-year period, 1925-1929, based upon data for 423 bond issues and 96 preferred stock issues secured through the medium of a questionnaire sent out by the Commission.

2. The four-year period, 1935-1938, based upon data for 210 bond issues and 206 preferred stock issues secured from registration statements filed under the Securities Act of 1933.

Not only does this study for the first time make available relatively comprehensive statistics on the cost of flotation for small issues covering a substantial part of the period during which the Securities Act was operative, but it also provides comparable data on costs obtaining in a period of active securities distribution prior to the enactment of the Securities Act. The textual discussion stresses mainly the comparative costs in the two periods.

All data are shown separately for the two component parts of the total cost of flotation. The first and larger part consists of the compensation paid to distributors. The second and smaller part is made up of other expenses incurred by the issuer, such as issue taxes, legal and accounting expenses, trustees' fees, and costs of printing and engraving.

A small issue for the purposes of this study has been arbitrarily defined as one with gross proceeds (equal to the number of units sold times the offering price) of less than \$5,000,000. Within this limit, however, the data have been segregated into a number of size groups so that cost of flotation for issues of varying degrees of smallness could readily be ascertained.

In order to maintain consistency of data not only within periods but between periods, it became necessary to exclude certain types and classes of securities. Offerings to security holders or to other particular groups of persons usually involve cost factors different from those arising in connection with ordinary public offerings and consequently were excluded from this study. Railroad issues, being exempt from registration under the Securities Act, were also excluded for the 1925-1929 period. Investment trust and real estate issues which present special problems were omitted from the data for both periods.

1/ For a detailed explanation of the selection of data and the limitations of the statistics see Section IV "Technical Explanation of Data and Methods."

Largely because of the exclusion of offerings to security holders, a method of distribution widely used for common stocks, insufficient data were obtained for the 1925-1929 period to permit a tabulation of common stock issues for that period. Statistics are presented, therefore, for this period only for bonds and preferred stocks and are shown separately for each such class of security. Data for bond issues proved to be much more satisfactory both as to coverage and homogeneity, than for preferred stock issues.

Detailed breakdowns of the data are presented in the statistical tables in order to show how consistently any changes in the average cost of flotation for all issues might apply to particular groups of issues. Average cost, expressed as a percent of gross proceeds, is shown separately by size of issue, size of issuer, industry, method of offering and yield. Supplementary tables show in similar detail the number of cases and the amount of gross proceeds upon which the average cost figures are based.

This study then is essentially descriptive in character and does not attempt, through the employment of refined statistical devices, to measure the extent to which various factors have contributed to variations in the cost of flotation. In the tables, however, may be found a detailed picture of variations, according to size, industry, yield and other categories.

Lack of data for the period before 1933 prevents a comparison, such as is here presented for bond and preferred stock issues of less than \$5,000, gross proceeds, for common stock issues or for issues of bonds and preferred stocks of \$5,000,000 and over. Figures, however, are available for issues registered under the Securities Act of 1933 which give an indication of the level of the cost of flotation for common stock issues and for large bond and preferred stock issues. Such data are available at the present time only for the period from January 1, 1936 through June 30, 1938. 1/

The statistics for bonds and preferred stocks of \$5,000,000 and over referred in the 1936-1938 period cover 108 issues. They indicate that the ratio of both compensation and other expenses declined with increasing size of offering for issues of \$5,000,000 and over, the same tendency as is shown in the body of the study for smaller issues. For bond issues of from \$5,000,000 to \$10,000,000 in size, total cost of flotation amounted to 3.4 percent of gross proceeds, declining to 3.1 percent for issues of from \$10,000,000 to \$25,000,000 and to 2.5 percent for issues of \$25,000,000 or more. For all bond issues regardless of size total cost averaged 2.8 percent, compared to an average of 5.1 percent for issues of less than \$5,000,000. Both compensation to distributors and other expenses became smaller as size increased. Compensation to distributors declined from 2.4 percent for issues of between \$5,000,000 and \$10,000,000 to 2.0 percent for issues of \$25,000,000 and over; it averaged 2.1 percent for bond issues of all sizes, against 3.6 percent for issues of under \$5,000,000. Other expenses fell from 1.0 percent for issues of between \$5,000,000 and \$10,000,000 to 0.5 percent for the largest size group; they averaged 0.7 percent for all bond issues compared to 1.5 percent for issues of under \$5,000,000.

1/ More detailed statistics for the years 1938 and 1939 are in preparation and will be available in the near future.

Cost of flotation for the relatively few preferred stock issues of \$5,000,000 and over in size exhibited similar tendencies. For preferred stock issues of from \$5,000,000 to \$10,000,000 in size, total cost was equal to 4.9 percent of gross proceeds, declining to 3.4 percent for issues of from \$10,000,000 to \$25,000,000 and to 3.0 percent for issues of \$25,000,000 or more. For all preferred stock issues regardless of size total cost averaged 5.7 percent, against 10.7 percent for issues of less than \$5,000,000. Compensation to distributors fell from 4.0 percent for issues of between \$5,000,000 and \$10,000,000 to 2.7 percent for issues of \$25,000,000 and over; it averaged 4.9 percent for issues of all sizes, against 3.3 percent for all issues under \$5,000,000. Other expenses declined from 0.9 percent for issues of between \$5,000,000 and \$10,000,000 to 0.3 percent for the largest size group; they averaged 0.8 percent for all preferred stock issues compared to 1.4 percent for issues of under \$5,000,000.

As the statistics exclude investment company issues and offerings to security holders, both involving special cost factors, tabulations for common stocks cover only issues of less than \$5,000,000. The statistics shown in the accompanying table, with all their limitations, show clearly the relatively high cost of flotation for publicly offered common stock issues of non-investment companies. The average cost of flotation of the 241 common stock issues covered amounted to nearly 18 percent, compensation accounting for 16.4 percent and other expenses for only 1.5 percent. Both compensation and other expenses declined with the size of the issue, but not rapidly. For example, compensation fell from over 20 percent for common stock issues of less than \$250,000 to not much over 14 percent for issues of between \$1,000,000 and \$5,000,000, while other expenses declined from 2.3 percent to 1.1 percent of expected gross proceeds.

COST OF FLOTATION OF COMMON STOCK ISSUES REGISTERED UNDER
THE SECURITIES ACT OF 1933 AND PROPOSED FOR SALE BY
ISSUERS, JANUARY 1, 1936 - JUNE 30, 1938

By Industry and Size of Issue
(Percent of Gross Proceeds)

Industry	Size of Issue (\$000)					
	Under 250	250 to 499	500 to 749	750 to 999	1,000 to 4,999	To 5,000
<i>Extractive</i>						
Number of cases	22	11	7	4	8	5
Compensation	31.7	23.4	25.0	33.8	21.4	21.4
Other expenses	1.4	1.1	1.3	1.0	1.3	1.3
Total cost	33.1	24.5	26.3	34.8	22.7	22.7
<i>Manufacturing</i>						
Number of cases	42	40	27	19	20	1
Compensation	16.0	19.4	18.7	14.4	11.8	11.8
Other expenses	2.8	2.0	2.4	1.7	1.3	1.3
Total cost	18.8	21.4	21.1	16.1	13.1	13.1
<i>Financial 1/</i>						
Number of cases	3	3	1	—	8	—
Compensation	13.1	11.8	15.0	—	11.6	11.6
Other expenses	3.1	1.5	2.1	—	1.0	1.0
Total cost	16.2	13.3	17.1	—	12.6	12.6
<i>Merchandising</i>						
Number of cases	3	3	2	2	3	—
Compensation	10.1	14.8	19.0	15.5	9.1	9.1
Other expenses	1.8	4.3	1.2	2.1	0.7	0.7
Total cost	11.9	19.1	20.2	17.6	9.8	9.8
<i>Transportation and Communication</i>						
Number of cases	1	—	—	2	1	—
Compensation	20.0	—	—	17.6	16.0	16.0
Other expenses	1.4	—	—	1.9	1.9	1.9
Total cost	21.4	—	—	19.5	17.9	17.9
<i>Utilities 2/</i>						
Number of cases	—	—	1	—	—	—
Compensation	—	—	3.6	—	—	—
Other expenses	—	—	1.3	—	—	—
Total cost	—	—	5.4	—	—	—
<i>Others 3/</i>						
Number of cases	2	1	2	—	3	—
Compensation	31.5	14.3	22.1	—	19.7	19.7
Other expenses	1.9	1.1	0.9	—	0.6	0.6
Total cost	33.4	15.4	23.0	—	20.3	20.3

II. SUMMARY OF FINDINGS ^{1/}

Outstanding among the main results disclosed by this study is the fact that cost of flotation for bond issues of less than \$5,000,000 was considerably lower in the 1935-1938 period than in the 1925-1929 period. Compensation to distributors declined substantially and more than offset the rise in other expenses. Cost of flotation for preferred stock issues of less than \$5,000,000, on the contrary, was considerably higher in the 1935-1938 period than in the 1925-1929 period, reflecting increases in both compensation to distributors and in other expenses. Maximum expenses, which might be attributed to registration requirements under the Securities Act averaged about two-thirds of one percent in the case of both bond and preferred stock issues under \$5,000,000 and about one percent for such issues of less than \$1,000,000.

A. *Bond Issues of Less Than \$5,000,000*

The principal statistical findings concerning the cost of flotation are first summarized for bond issues.

1. Out of each \$100 of gross proceeds (equal to the number of units sold times the offering price) in the 1925-1929 period, \$6 or 6.0 percent had to be paid to cover the cost of flotation. ^{2/} The proportionate cost of flotation declined to 4.8 percent in the 1935-1938 period.

2. Compensation paid to distributors for their selling services amounted to 5.2 percent in the 1925-1929 period and dropped to 3.4 percent in the 1935-1938 period.

3. Other expenses, which consist largely of professional and mechanical services incident to preparing an issue for the market, averaged 0.8 percent in the 1925-1929 period. Such expenses rose to 1.4 percent in the 1935-1938 period.

4. Compensation to distributors still constitutes the major element in the cost of flotation. Compensation was about six and one-half times as large as other expenses in the 1925-1929 period and approximately two and one-half times as large as other expenses in the 1935-1938 period.

5. Cost of flotation for the very small bond issues (that is, issues under \$1,000,000) remained practically stationary in the two periods, amounting to 6.9 percent in the 1925-1929 period, and 7.0 percent in the 1935-1938 period.

^{1/} A more detailed description of the statistical findings is presented in Section III, which also includes references to the appropriate tables and charts.

6. Cost of flotation for bond issues ranging between \$1,000,000 and \$5,000,000 in size declined from 5.9 percent in the 1925-1929 period to 4.5 percent in the 1935-1938 period. The reduction in cost was generally greater as the size of issue increased.

7. The general tendency for cost of flotation to decline with an increase in the size of issue, while evidenced in both periods, was more pronounced in the 1935-1938 period than in the earlier period. For example, in the 1925-1929 period cost of flotation dropped from 6.9 percent for issues of under \$1,000,000 to 5.9 percent for issues of \$1,000,000 or over, whereas in the 1935-1938 period, the comparable decline was from 7.0 percent to 4.5 percent.

8. The substantially lower costs shown in the later period for larger sized issues resulted wholly from savings in compensation paid to distributors. Compensation declined from 5.2 percent in the 1925-1929 period to 3.2 percent in the 1935-1938 period for issues of \$1,000,000 or over but only from 5.7 percent to 5.0 percent for issues of under \$1,000,000. The increase in other expenses for the two size groups was much the same.

9. Cost of flotation for the very small issuing corporations (that is, companies with assets of under \$1,000,000) was considerably higher in the 1935-1938 period, when it amounted to 9.6 percent, than in the 1925-1929 period, when it was only 7.0 percent. For companies with assets of \$1,000,000 or over, however, cost of flotation was substantially lower in the 1935-1938 period.

10. Cost of flotation was lower in the 1935-1938 period than in the earlier period for all industry groups except the financial group, for which the number of cases in the early period was extremely small. In the two major industry groups, the reduction shown for utilities, namely from 5.6 percent to 4.0 percent, was somewhat greater than the decline of from 6.6 percent to 5.6 percent shown for manufacturing companies.

11. Cost of flotation for issues underwritten (that is, issues distributed pursuant to a purchase agreement) declined from 6.0 percent in the 1925-1929 period to 4.7 percent in the 1935-1938 period. However, a marked increase from 5.8 percent to 7.6 percent was shown for issues distributed pursuant to an agency or option agreement.

12. A study of bond issues for which yield to maturity could be computed indicated that cost of flotation for issues having about the same yield was higher in the 1935-1938 period than in the 1925-1929 period. However, if allowance is made for the substantially lower general level of bond yields in the 1935-1938 period than in the earlier period, it appears that costs for issues of roughly comparable quality were lower in the 1935-1938 period. In both periods costs greatly increased

in the 1925-1929 period to 1.17 percent in the later period. By far the greatest proportional increase in such expenses was shown for accounting fees, which rose from 0.03 percent to 0.21 percent. Further analysis indicates that expense items partly attributable to registration requirements tended to increase in roughly the same degree irrespective of the size of issue.

1. Preferred Stock Issues of Less Than \$5,000,000 1

1. Cost of flotation for preferred stock issues increased from 7.8 percent in the 1925-1929 period to 10.2 percent in the 1935-1938 period. This reflected advances from 7.1 percent to 8.9 percent in compensation to distributors and from 0.7 percent to 1.3 percent in other expenses.

2. The increase in cost of flotation was much greater for the very small preferred stock issues than for the larger ones. For issues of under \$1,000,000, costs rose from 8.3 percent in the 1925-1929 period to 14.8 percent in the 1935-1938 period, whereas for issues of \$1,000,000 or over there was only a slight advance from 7.7 percent to 8.2 percent.

3. A breakdown of cost of flotation by size of the issuing corporation indicates that for companies with assets of less than \$5,000,000 costs were only slightly higher in the 1935-1938 period than in the earlier period, and that for issues of companies with assets of \$5,000,000 or over costs were considerably lower in the 1935-1938 period. The fact that there was an increase in average costs for all preferred stocks covered in this study, reflected the preponderance of issues of small companies in the 1935-1938 period.

4. Cost of flotation was particularly high for preferred stocks issued by companies with assets of less than \$5,000,000, ranging from around 12 to 13 percent in the two periods. Moreover, the tendency for costs to decline as the size of the issuing corporation became larger was more pronounced for preferred stock issues than for bond issues.

5. A breakdown of cost of flotation for preferred stock issues by industry groups shows that while costs for manufacturing issues rose from 7.8 percent in the 1925-1929 period to 11.1 percent in the 1935-1938 period, costs for utility issues declined from 6.3 percent to 4.3 percent.

6. For preferred stock issues underwritten (that is, distributed pursuant to a purchase agreement) cost of flotation declined from 9.1 percent in the 1925-1929 period to 6.1 percent in the 1935-1938 period. This contrasts with an increase from 5.9 percent to 13.3 percent for issues distributed pursuant to an agency or option agreement.

7. Cost of flotation for preferred stock issues having approximately the same current yield was much higher in the 1935-1938 period than in the 1925-1929 period. This general relationship would still hold even

9. A breakdown of the individual items included in other expenses indicates that the advances in those expense items which are partly attributable to registration requirements were only slightly greater for preferred stocks than for bonds.

C. General Conclusions

In the light of these principal statistical findings covering small bond and preferred stock issues, a few conclusions may be drawn regarding cost of issuance as a factor in the general problem of small scale financing.

1. Cost of flotation for bond issues of less than \$5,000,000 since the pre-depression period has declined to about 5 percent. For preferred stock issues, on the other hand, cost of flotation has increased to about 10 percent. Hence, the cost problem in small scale financing of senior securities chiefly concerns preferred stock issues rather than bond issues.

2. For very small issues, that is, of less than \$1,000,000, not only has cost of flotation in recent years remained comparatively high even in the case of bond issues but has risen to particularly high levels in the case of preferred stock issues. Consequently, the cost problem in small scale senior financing chiefly concerns bond and preferred stock issues of less than \$1,000,000 rather than issues of greater size.

3. Although other expenses have increased in recent years, such expenses (which include not only all costs incident to meeting registration requirements but also a number of other cost elements independent of registration) still constitute much the smaller part of total cost of flotation. Particularly is this true for issues of under \$1,000,000 in size. Thus, the cost problem in small scale senior financing chiefly concerns compensation to distributors rather than other expenses.

In short, the problem of the cost of small scale financing through senior securities largely resolves itself into finding ways and means of reducing compensation paid to distributors primarily in connection with bond and preferred stock issues of less than \$1,000,000, and to a lesser extent with preferred stock issues of \$1,000,000 to \$5,000,000. ^{1/}

* * * * *

^{1/} From other statistics compiled by the Commission (e.g., see Statistical Series Release No. 133) it is apparent that this statement might also be applied to common stock issues of comparable size.

This section of the report presents detailed statistical data, which summarized in the preceding section, concerning cost of flotation for issues of less than \$5,000,000 covering 423 bond issues and 93 preferred stock issues in the five-year period 1925-1929 and 210 bond issues and 206 preferred stock issues in the four-year period 1935-1938. Gross proceeds for such issues amounted to \$736,071,000 for bonds and \$141,067,000 for preferred stocks in the 1925-1929 period, and aggregated \$296,912,000 for bonds and \$199,087,000 for preferred stocks in the 1935-1938 period. While certain differences were evidenced in average costs for the individual years included in these two periods, the average cost figures shown for each of the two periods are deemed to be reasonably representative (Tables 1 and 2). The discussion, therefore, is confined to a comparison of average costs for the two periods.

A. Cost Variation by Type of Security

Cost of flotation for bond issues in the 1925-1929 period absorbed \$6.00 out of each \$100 of gross proceeds, or 6.0 percent. This proportionate cost declined to 4.8 percent in the 1935-1938 period, indicating that cost of flotation for small bond issues averaged about one-fifth lower during the period in which registration was required under the Securities Act than in a representative period prior to the Act.

This reduction in total cost of flotation for bond issues was wholly due to economies in compensation paid to distributors. Such compensation fell from 5.2 percent in the 1925-1929 period to 2.4 percent in the 1935-1938 period. A contrary tendency, however, occurred in other expenses which increased from 0.8 percent to 1.4 percent. In relation to gross proceeds therefore, compensation was 1.8 percent lower in the 1935-1938 period, whereas other expenses were 0.6 percent higher. This left a net over-all saving of 1.2 percent, or \$1.20 for each \$100 of gross proceeds.

Cost of flotation for preferred stocks, on the other hand, experienced a substantial rise—from 7.8 percent in the 1925-1929 period to 10.2 percent in the 1935-1938 period. Both components of total cost of flotation show increases, compensation rising from 7.1 percent to 8.9 percent and other expenses from 0.7 percent to 1.3 percent. Relative to gross proceeds, compensation was 1.3 percent higher and other expenses 0.6 percent higher in the later period. This gave a combined increase of 2.4 percent, or \$2.40 per \$100 of gross proceeds.

The effect of these divergent tendencies was to widen substantially the cost differential between bond and preferred stock issues. Although costs relative to gross proceeds were only 1.8 percent lower for bonds than for preferred stocks in the 1925-1929 period, this margin widened to 5.4 percent in the 1935-1938 period. Thus, in recent years the cost of flotation for small preferred stock issues has been more than twice as high as for small bond issues.

B. Cost Variation by Size of Issue

A detailed breakdown of cost of flotation by size of issue makes it clear that cost changes over recent years have operated to the disadvantage of the small issuer. Table 3 shows that the average cost of flotation for issues of less than \$100,000 in the 1935-1938 period was 10.2 percent, compared with 7.8 percent in the 1925-1929 period.

of flotation of bond issues of under \$1,000,000 remained practically constant at 6.9 percent of gross proceeds in the 1925-1929 period and at 7.1 percent in the 1935-1938 period. A further breakdown of this size class reveals a substantial rise in costs from 6.8 percent to 8.4 percent for bond issues of under \$250,000. This record contrasts sharply with the decline in costs from 5.9 percent to 4.5 percent for bond issues of from \$1,000,000 to \$5,000,000. A further breakdown of this latter size group indicates a tendency for the decline in costs from the early period to the late period to become greater as the size of issue increases.

Inasmuch as the other expenses increased to roughly the same extent for bond issues of various size, the cost variations by size of issue mainly reflected changes in compensation to distributors. In support of this general conclusion it may be noted that other expenses advanced from 1.1 percent to 2.0 percent for issues of under \$1,000,000 and from 0.7 percent to 1.3 percent for issues of from \$1,000,000 to \$5,000,000. The proportional increase in both instances was about the same. Compensation to distributors, however, while declining only from 5.7 percent to 5.0 percent for issues of under \$1,000,000, fell from 5.2 percent to 3.2 percent for issues of from \$1,000,000 to \$5,000,000.

Cost changes for the very small preferred stock issues were even more unfavorable than in the case of bond issues. The total cost of flotation for preferred stock issues of under \$1,000,000 increased sharply from 8.3 percent in the 1925-1929 period to 14.8 percent in the 1935-1938 period. An even greater rise in costs was shown for issues of under \$250,000, namely from 6.0 percent to 16.4 percent. In contrast to this decided rise in cost was the comparatively slight increase from 7.7 percent to 8.2 percent for issues of from \$1,000,000 to \$5,000,000. It might also be noted that in the \$2,000,000 to \$3,000,000 size group costs dropped moderately from 8.5 percent to 7.5 percent.

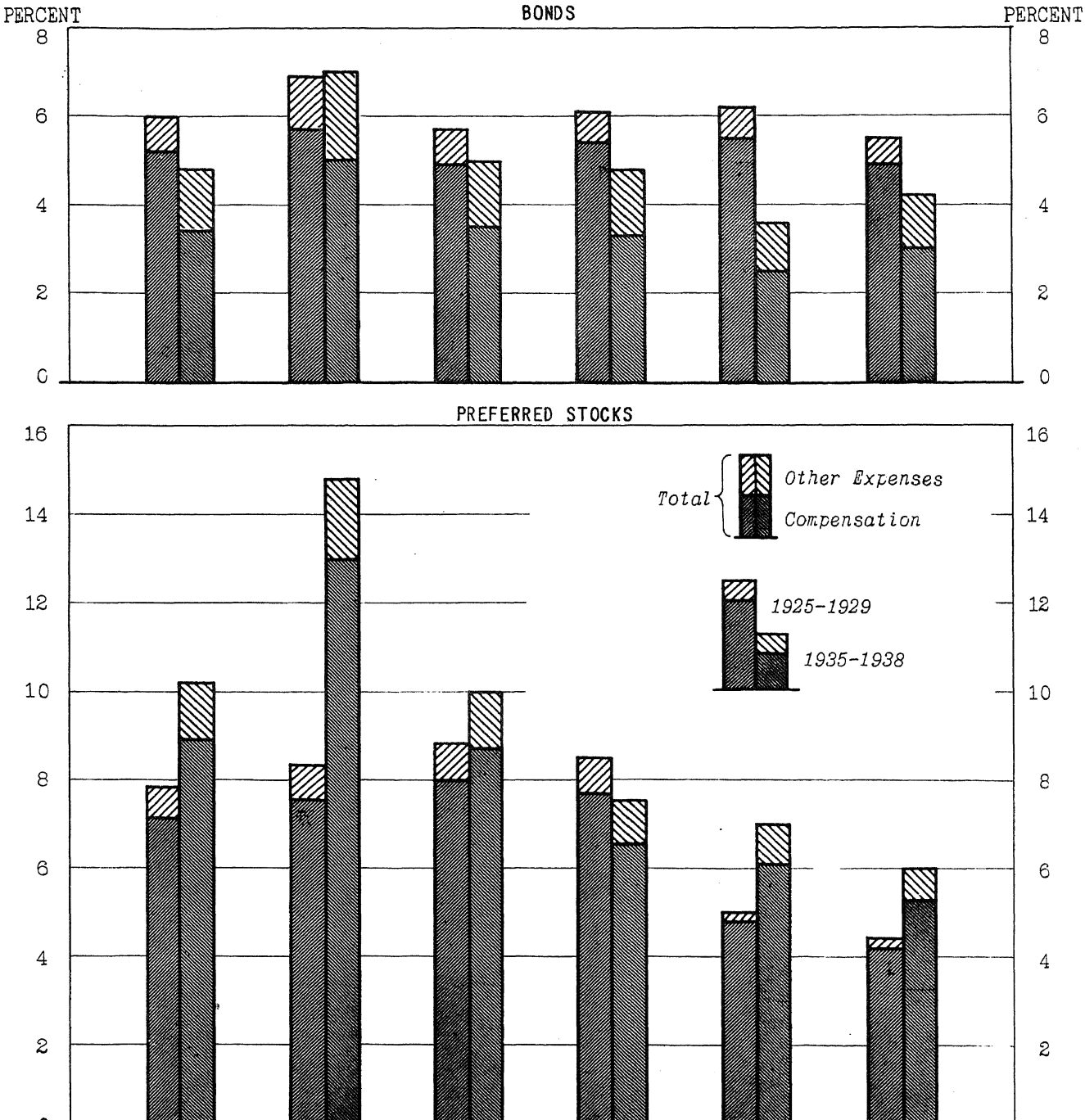
In the case of preferred stocks, the growth in other expenses from the 1925-1929 period to the 1935-1938 period was somewhat greater for the very small issues than for the larger issues. Thus, other expenses moved from 0.8 percent to 1.8 percent for issues of under \$1,000,000 but increased only from 0.7 percent to 1.1 percent for issues of \$1,000,000 to \$5,000,000. Compensation to distributors increased from 7.5 percent to 13.0 percent for issues of under \$1,000,000 but increased only slightly from 7.0 percent in the early period to 7.1 percent in the later period for issues of from \$1,000,000 to \$5,000,000. Hence, both cost factors shifted substantially to the disadvantage of the very small preferred stock issues.

The general tendency for cost of flotation to decline the greater size of issue applied both to bonds and preferred stock issues in each of the two periods. However, since cost changes have been unfavorable for the comparatively small issues, it follows that the difference in cost between relatively small and large issues has widened considerably in the more recent years. For example, the total cost of flotation for bond issues of under \$1,000,000, relative to gross proceeds, was only 1.0 percent larger than for issues of from \$1,000,000 to \$5,000,000 in the 1925-1929 period. This difference widened to 2.5 percent in the 1935-1938 period or a net widening of 1.5 percent in the cost margin. The same tendency, though much more pronounced, was shown for preferred stock issues. Compensation

CHART 1

COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS
OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

BY SIZE OF ISSUE



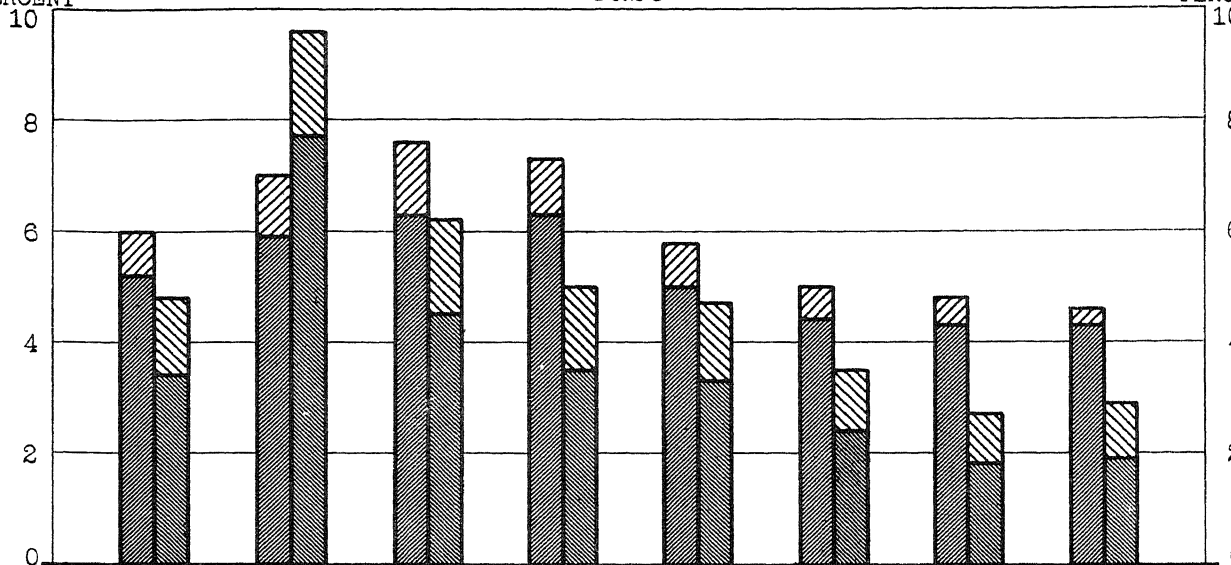
**COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS
OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938**

BY SIZE OF ISSUER

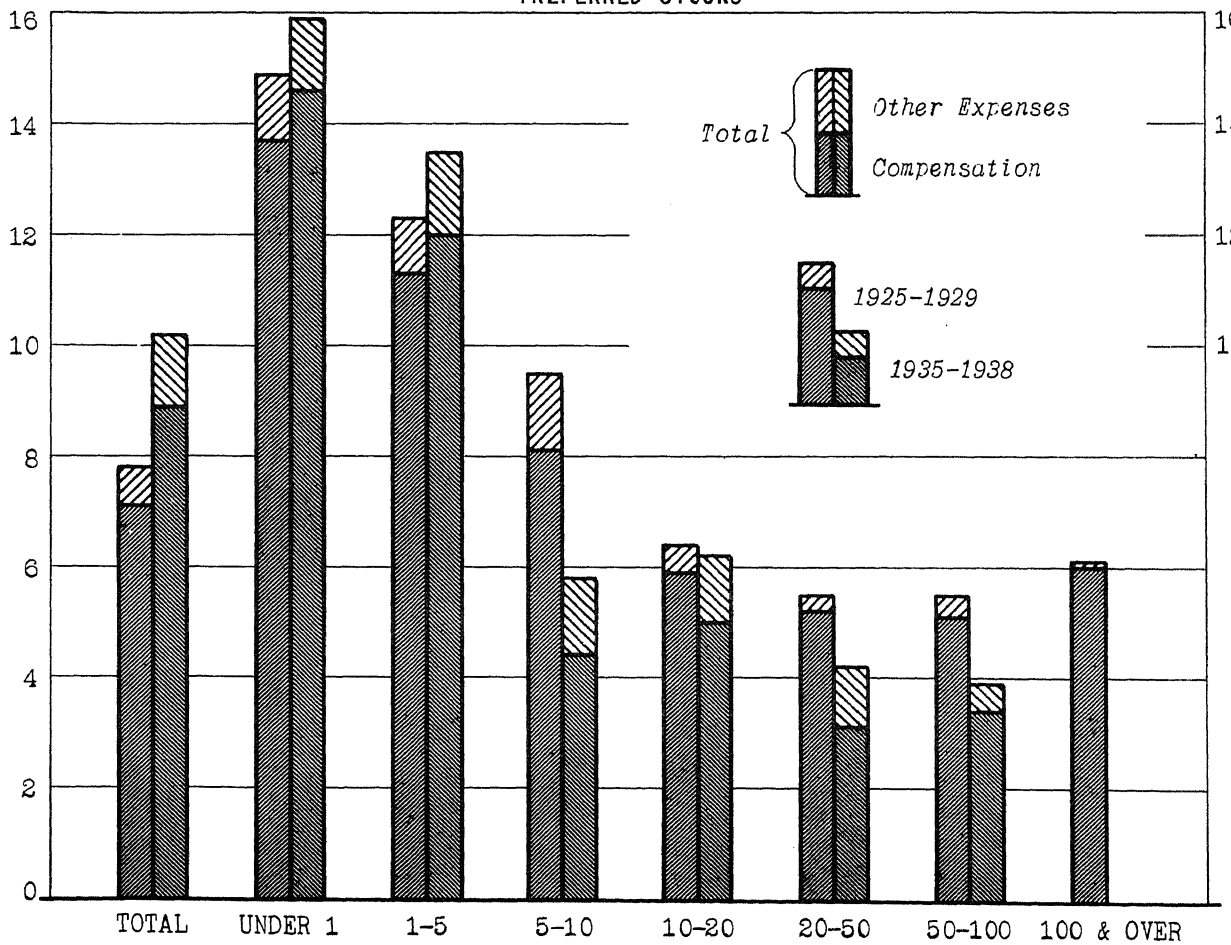
PERCENT

BONDS

PERCENT



PREFERRED STOCKS



Assets (Millions of Dollars)

relative to gross proceeds were only 0.6 percent larger for issues under \$1,000,000 than for the \$1,000,000 to \$5,000,000 group in the early period. This difference widened to 5.6 percent in the later period, or a net widening of 6.0 percent in the cost margin. The cost handicap imposed upon extremely small issues has increased substantially in recent years and this has been due mainly to the increase in compensation paid to distributors.

In both periods the dollar volume of bond financing was fairly well distributed over the various size groups, although there was some concentration in the \$2,000,000 to \$3,000,000 size group for the 1925-1929 period. For preferred stocks, considerable concentration was shown in the two size groups included in the \$1,000,000 to \$3,000,000 range for the early period and in the two size groups under \$2,000,000 for the late period. It may also be observed that, despite the high cost of flotation for preferred issues of less than \$1,000,000 in the 1935-1938 period, the amount of gross proceeds shown for that size group was almost as large as for the \$1,000,000 to \$2,000,000 group.

C. Cost Variation by Size of Issuer

That cost changes also have operated to the disadvantage of the comparatively small issuing companies is evidenced in the detailed breakdown shown for cost of flotation by size of issuer (Tables 5 and 6, and Chart 2). ^{1/} Total cost of flotation of bonds issued by companies with assets of under \$1,000,000 increased from 7.0 percent of gross proceeds in the 1925-1929 period to 9.6 percent in the 1935-1938 period. For all bond issues of companies with assets of \$1,000,000 or more a decline in costs was shown, the extent of the decline tending to become larger as the size of the issuing company increased. As a rule, however, the proportionate advance in other expenses was slightly greater for the larger sized companies. Consequently, the increasing cost advantage accruing to the larger sized companies was wholly due to their ability to secure substantially lower rates of compensation to distributors.

Cost of flotation for preferred stock issues was higher in the 1935-1938 period as respects issuing companies with assets of under \$5,000,000. Costs were either about the same or lower in the 1935-1938 period for issuing companies with assets of \$5,000,000 or more. Again, as in the case of bond issues, the larger sized companies were able to reduce costs through obtaining lower rates of compensation to distributors, rather than by achieving economies in other expenses.

^{1/} Balance sheets at a year-end date falling approximately at the middle of the period were utilized for determination of the size of issuers included in the earlier period; for the 1935-1938 period the size of issuer was based upon the balance sheet filed in the registration statement. Coverage for size of issuer was identical with that for size of issue, except that for bonds in the 1925-1929 period the analysis by size of issuer includes 398 cases with gross proceeds of \$727,155,000. Despite the exclusion of the 25 cases for which balance sheet data could not be obtained for the early period, the average cost of flotation for the 398 cases was the same as for the

The comparative cost advantage enjoyed by large issuing companies with respect to bond issues was materially greater in the late period than in the early period. This is evidenced by the fact that costs, relative to gross proceeds, were only 2.4 percent larger for the smallest sized companies than for the largest sized companies in the 1925-1929 period, whereas this difference widened to 6.7 percent in the 1935-1938 period, or a widening of 4.3 percent in the cost margin. A similar comparison for the smallest and largest issuer size groups covering preferred stocks shows that the margin widened from 8.8 percent in the 1925-1929 period to 12.1 percent in the 1935-1938 period, or a net widening of 3.2 percent in the cost margin.

It is of interest to note that companies with assets of less than \$10,000,000 increased their share of the total dollar volume of financing of bond issues of under \$5,000,000 from 35 percent in the 1925-1929 period to 50 percent in the 1935-1938 period. Similarly, such companies increased their share of the total dollar volume of financing of preferred stock issues of under \$5,000,000 from 38 percent in the early period to 63 percent in the late period. It is all the more significant, therefore, that despite the greater weighting of smaller sized companies with their relatively higher costs in the 1935-1938 period, the average cost of flotation shown for all bond issues in that period was still substantially lower. Moreover, in view of the even greater increase of weighting of the smaller sized companies with respect to preferred stock financing in the 1935-1938 period, it is perhaps not surprising that average cost of flotation shown for all preferred stock issues was higher.

D. Cost Variation by Industry

The general decline in cost of flotation applied with reasonable consistency to bond issues in the various industry groups (Tables 7 and 8, and Chart 3). ^{1/} The decline in costs from the early to the late period was somewhat greater for bond issues of public utility companies than for manufacturing companies. Total cost of flotation for utilities fell 5.6 percent of gross proceeds in the 1925-1929 period to 4.0 percent in the 1935-1938 period; for manufacturing companies the decline was only 6.6 percent to 5.6 percent. These two major industry groups accounted for the great bulk of small financing covered in this study. However, it must be noted with respect to the less important industry groups, namely extractive, financial, merchandising, transportation and communication, and all others, that only in the financial group did cost of flotation fail to decline in the 1935-1938 period.

In general, other expenses increased to roughly the same extent for the various industry groups. Hence, variations in cost tendencies among the several industry groups mainly reflected differences in compensation to distributors.

Changes in total cost of flotation for preferred stock issues, on the contrary, showed very little consistency among the industry groups. For preferred stock issues in the manufacturing group total costs advanced sharply from 7.8 percent in the 1925-1929 period to 11.1 percent in the 1935-1938 period. This compared with a substantial reduction from 6.3 percent to 4.3 percent for utility issues. This same lack of consistency

COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

BY INDUSTRY

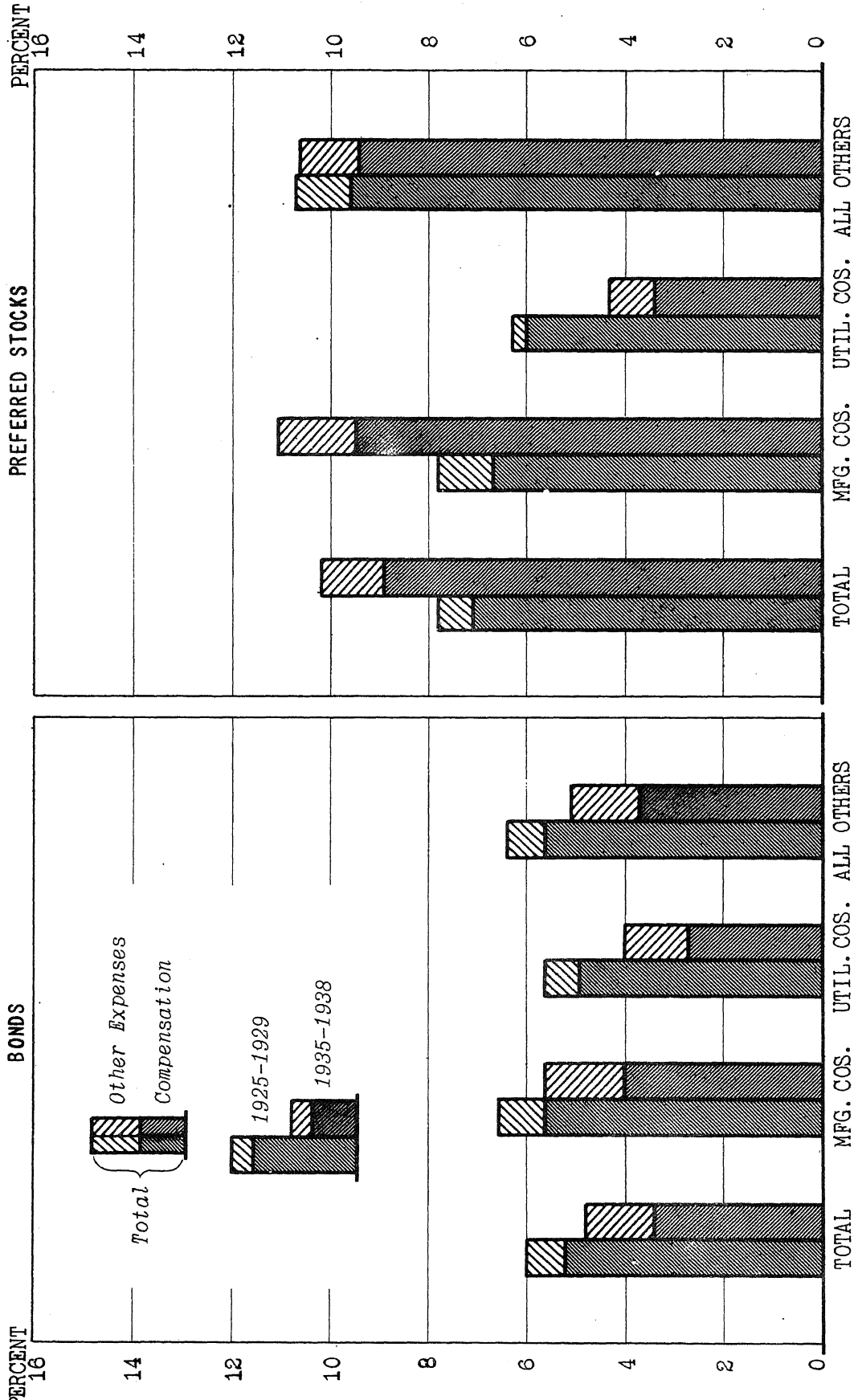
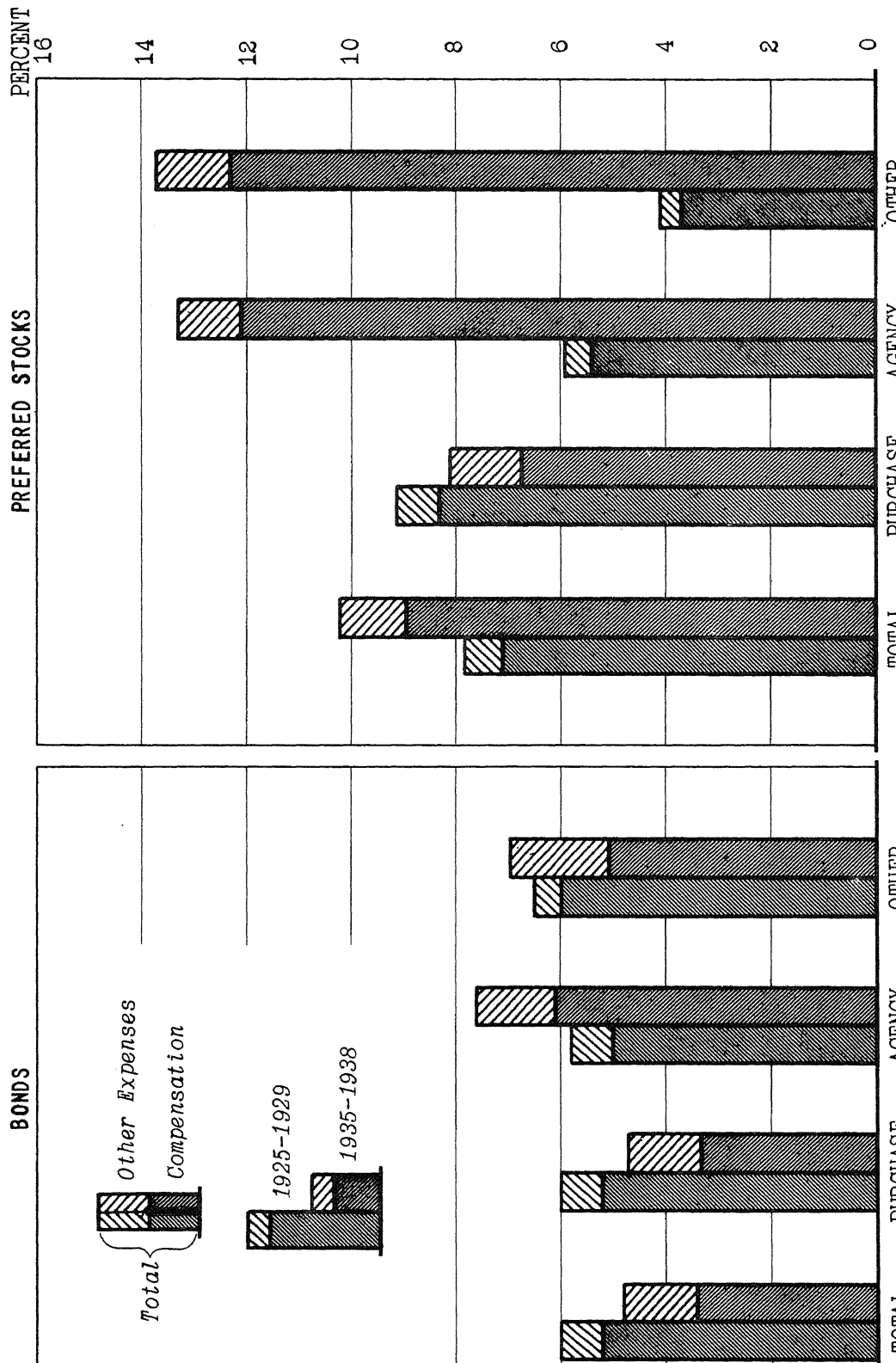


CHART 4

COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

BY METHOD OF OFFERING



was shown, not only for total cost of flotation in the less important individual industry groups, but also for compensation to distributors and other expenses in all of the industry groups.

From the statistical data it is apparent that utility issues predominated as respects both bond and preferred stock issues in the 1925-1929 period. In the 1935-1938 period, on the other hand, utility issues were only slightly more important than manufacturing issues in the case of bonds and constituted one of the minor industry groups in the case of preferred stocks. Because of the shifting importance of the utility group, it was deemed advisable to make an additional tabulation for bonds and preferred stocks, segregated as to utilities and other than utilities and classified by size of issue (Tables 9 and 10). The chief differences shown for these two groups are noted briefly below.

Total cost of flotation for utility bond issues declined from 5.6 percent in the 1925-1929 period to 4.0 percent in the 1935-1938 period and for non-utility bond issues dropped from 6.5 percent to 5.4 percent. Since the difference in cost changes for utility and non-utility bonds was not substantial, the shifting importance of the utility group had only a moderate influence as regards the total figures for bonds. For preferred stock issues, however, cost of flotation declined from 6.3 percent in the 1925-1929 period to 4.3 percent in the 1935-1938 period for utility issues, whereas costs increased from 9.3 percent to 10.9 percent for non-utility issues. These substantial differences in both cost changes and cost levels, coupled with the greatly diminished importance of utility issues in the 1935-1938 period, account in considerable measure for the increase in costs shown for all preferred stock issues from the early to the late period.

E. Cost Variation by Method of Offering

Declining costs were shown for both bond and preferred stock issues underwritten (that is, issues distributed pursuant to a purchase agreement), whereas rising costs were shown for both types of issues distributed by other methods (Tables 11 and 12, and Chart 4). 1/ Cost of flotation for underwritten bond issues dropped from 6.0 percent of gross proceeds in the 1925-1929 period to 4.7 percent in the 1935-1938 period. However, for bond issues distributed through agency and option agreements, costs rose from 5.8 percent to 7.6 percent and for issues distributed by other methods 2/ there was an increase from 6.5 percent to 7.0 percent. Except in the case of issues distributed by other methods, where other expenses show a much greater than average increase, changes in costs were almost wholly due to changes in compensation to distributors.

The cost of flotation for underwritten preferred stock issues likewise declined from 9.1 percent in the 1925-1929 period to 8.1 percent in the 1935-1938 period. In contrast, sharp increases were shown for preferred stocks otherwise distributed, namely from 5.9 percent to 13.3 percent for issues sold through agents or on an option basis, and from 4.1 to

1/ Coverage for the analysis by method of offering is complete.

2/ An issue was regarded as distributed by "other methods" if a part was distributed through an underwriter and a part through an agent, or if

13.7 percent for issues distributed by other methods. For underwritten preferred stocks, the increase in other expenses was more than offset by the decline in compensation. Both cost factors showed sharp increases in the case of non-underwritten preferred stocks.

Although non-underwritten bond issues were fairly important in the 1925-1929 period, such issues were of negligible importance in the 1935-1938 period. For preferred stock issues, on the contrary, non-underwritten issues were of considerable importance in both periods. The fact that the average size of non-underwritten bond and preferred stock issues in the 1935-1938 period was much smaller than for underwritten issues may partly explain the comparatively high costs shown for the non-underwritten issues in that period.

F. Cost Variation by Yield

Inasmuch as yield affords a rough measure of the quality of an issue, it is of interest to compare cost variations according to yield at the time of issuance (Tables 13 and 14, and Chart 5). ^{1/} Nevertheless, because of marked differences in yield levels obtaining in the two periods, difficulties arise in making pertinent cost comparisons.

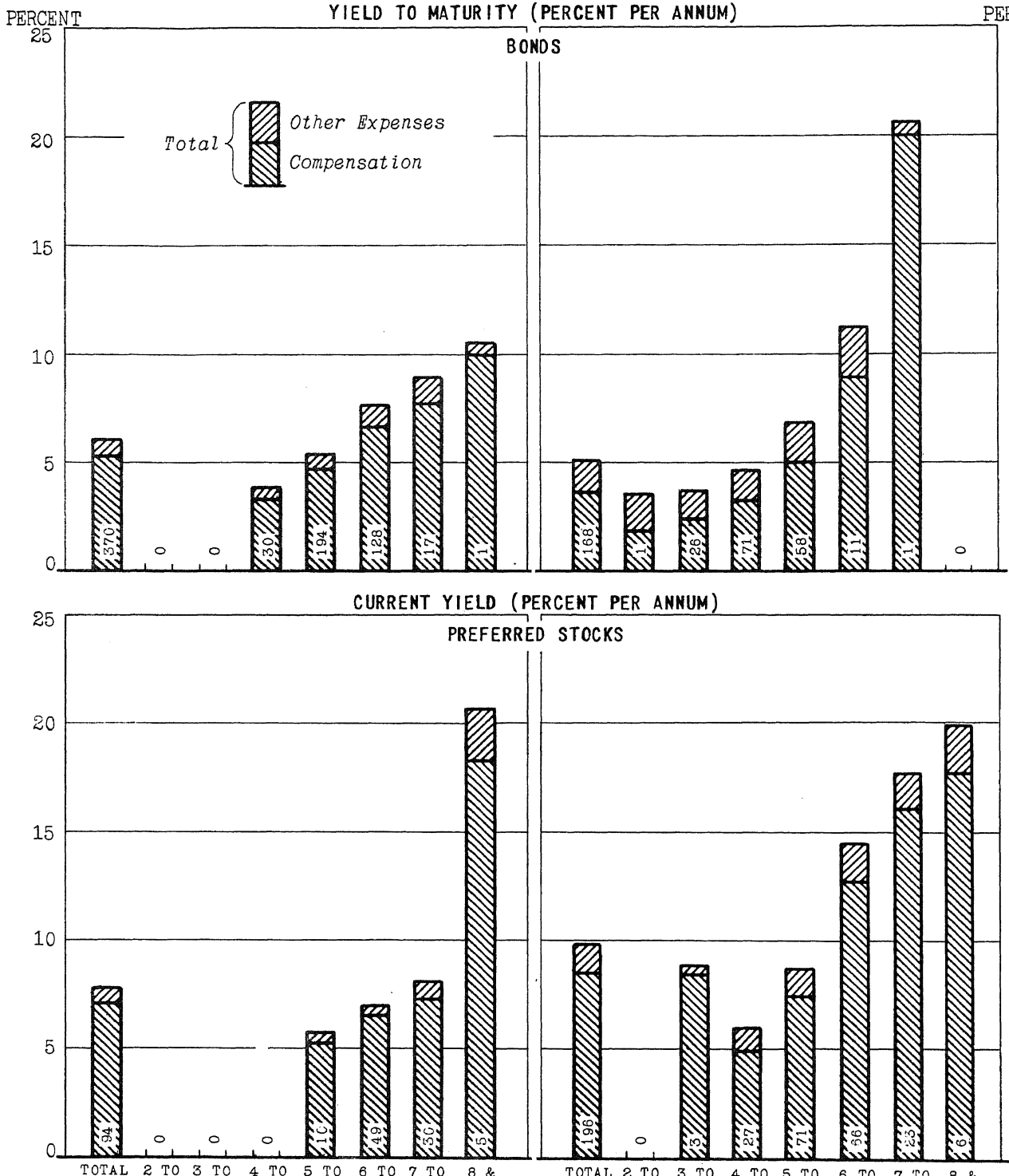
If, for example, cost comparisons are made for a given yield group, it is found that cost of flotation for bond issues of about the same maturity was higher in the 1935-1938 period than in the 1925-1929 period. So much allowance, however, should be made for the fact that bond yields, as shown in the generally accepted yield indexes, for industrial issues and utility issues were about 1-1/2 percent and 1 percent higher respectively in the 1925-1929 period than in the 1935-1938 period. Hence it would seem invalid to compare costs for a 4 percent bond in the early period with a 5.5 percent bond in the late period. As a matter of fact, bond issues covered in this study were largely concentrated in the yield range of from 4 to 5 percent in the 1925-1929 period and in the 3 to 6 percent range in the 1935-1938 period. Furthermore, the greatest concentration occurred in the 5 to 6 percent yield group in the earlier period and in the 4 to 5 percent yield group in the later period.

In view of these circumstances, it appears more appropriate to compare cost of flotation for bonds in a given yield group in the 1925-1929 period with costs for a yield group 1 percent lower in the 1935-1938 period. On this basis, cost comparisons for the three bond yield groups

^{1/} Coverage for the analysis by yield is not complete, inasmuch as the cost of flotation could not be computed in all cases. For bonds, 370 cases with gross proceeds of \$701,428,000 were included in the 1925-1929 period and 370 cases with gross proceeds of \$241,361,000 were included in the 1935-1938 period. Total cost of flotation for these cases was 6.1 percent in the 1925-1929 period and 5.1 percent in the 1935-1938 period, only slightly higher than for all cases. For preferred stocks, 196 cases with gross proceeds of \$138,068,000 were included in the 1925-1929 period and 196 cases with gross proceeds of \$190,687,000 were included in the 1935-1938 period. Total cost of flotation for these cases was 7.8 percent in the 1925-1929 period and 9.8 percent in the 1935-1938 period, or exactly the same as for all cases in the early period and only slightly lower than for all cases in the late period.

CHART 5

COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS
OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938
BY YIELD



in which most issues were concentrated show the following picture:

<u>1925-1929</u>		<u>1935-1938</u>	
Bond Yield (Percent per Annum)	Cost of Flotation (Percent of Gross Proceeds)	Bond Yield (Percent per Annum)	Cost of Flotation (Percent of Gross Proceeds)
4.0 - 4.9	3.9	3.0 - 3.9	3.7
5.0 - 5.9	5.4	4.0 - 4.9	4.6
6.0 - 6.9	7.6	5.0 - 5.9	6.8

It is apparent, therefore, after making a rough adjustment for the generally lower level of bond yields in the later period, that the cost trend was downward for bonds of comparable yield.

While available indexes showing historical changes in preferred stock yields are less satisfactory than indexes generally available for bond yields, it appears that preferred stock yields were at least one-half percent lower in the 1935-1938 period than in the 1925-1929 period. If, therefore, cost comparisons for preferred stocks are made on the same basis as was previously done for bonds, it is found that costs were less for preferred stocks yielding a given percentage in the early period than for issues yielding 1 percent lower in the late period. In general, then, for issues of roughly comparable quality, it appears that cost of flotation was falling for bonds and rising for preferred stocks.

In any event, the analysis of cost of flotation by yield clearly shows that costs tend to increase quite substantially the higher the yield. This was generally true for both types of issues in the two periods. If the comparison is limited to the three yield groups in which most of the cases and gross proceeds fell, it is found that cost of flotation for bond issues was almost twice as great for the highest yield group as for the lowest yield group in both periods. For preferred stock issues, costs were almost one-half greater for the highest yield group than for the lowest yield group in the 1925-1929 period, and almost one and one-half times greater for the highest yield group than the lowest yield group in the 1935-1938 period.

Virtually all of the bond issues, for which yields could not be computed, consisted of serial bonds and for such issues total cost of flotation declined from 4.8 percent in the 1925-1929 period to 4.0 percent in the 1935-1938 period. The extent of this decline in costs was very nearly the same as for the non-serial issues. The lower cost level shown for serial bonds in both periods apparently reflected, in part at least, the tendency for costs to decline the shorter the term to maturity, serial issues usually having a comparatively short average term to maturity.

G. *Variation in Other Expense Items*

Individual items making up total other expenses have been broken down into expenses not attributable to registration requirements under the Securities Act, and expenses partly attributable to registration requirements

(Table 15 and Chart 6). 1/ The former group includes taxes and fees to governmental bodies as well as fees of transfer agents and trust items which presumably had not been affected by registration requirements. Included among those expenses which may have been augmented by the requirements of the Securities Act are such items as printing and engraving fees, accounting fees and miscellaneous expenses. Expenses not attributable to registration remained relatively constant over the two periods. In the 1925-1929 period there was only a slight increase in such expenses from 0.231 percent to 0.259 percent in the 1935-1938 period. For preferred stock issues such other expenses were identical in both periods, namely 0.175 percent.

A decided increase, however, was shown in expenses partly attributable to registration--from 0.510% in the early period to 1.185% in the late period for bond issues, and from 0.461% to 1.164% for preferred stock issues. It appears that such expenses slightly more than doubled, and the increase amounted to about two-thirds of one percent, or about 65 or 70 cents per \$100 of gross proceeds. Even if it be assumed that the increase is attributable to registration requirements, which is doubtful, the indicated maximum cost of registering issues of less than \$5,000 under the Securities Act would average about two-thirds of one percent of gross proceeds, equivalent to about one-seventh of the total cost of registration for bonds and about one-fifteenth of the total cost for preferred stock issues.

The greatest increase in expense items partly attributable to registration was shown for accounting fees, which rose from 0.058% to 0.212% for bond issues, and from 0.079% to 0.220% for preferred stock issues. Despite the large proportional rise, accounting fees in the 1935-1938 period were less than one-half as large as legal fees which more than doubled in the early period to the late period.

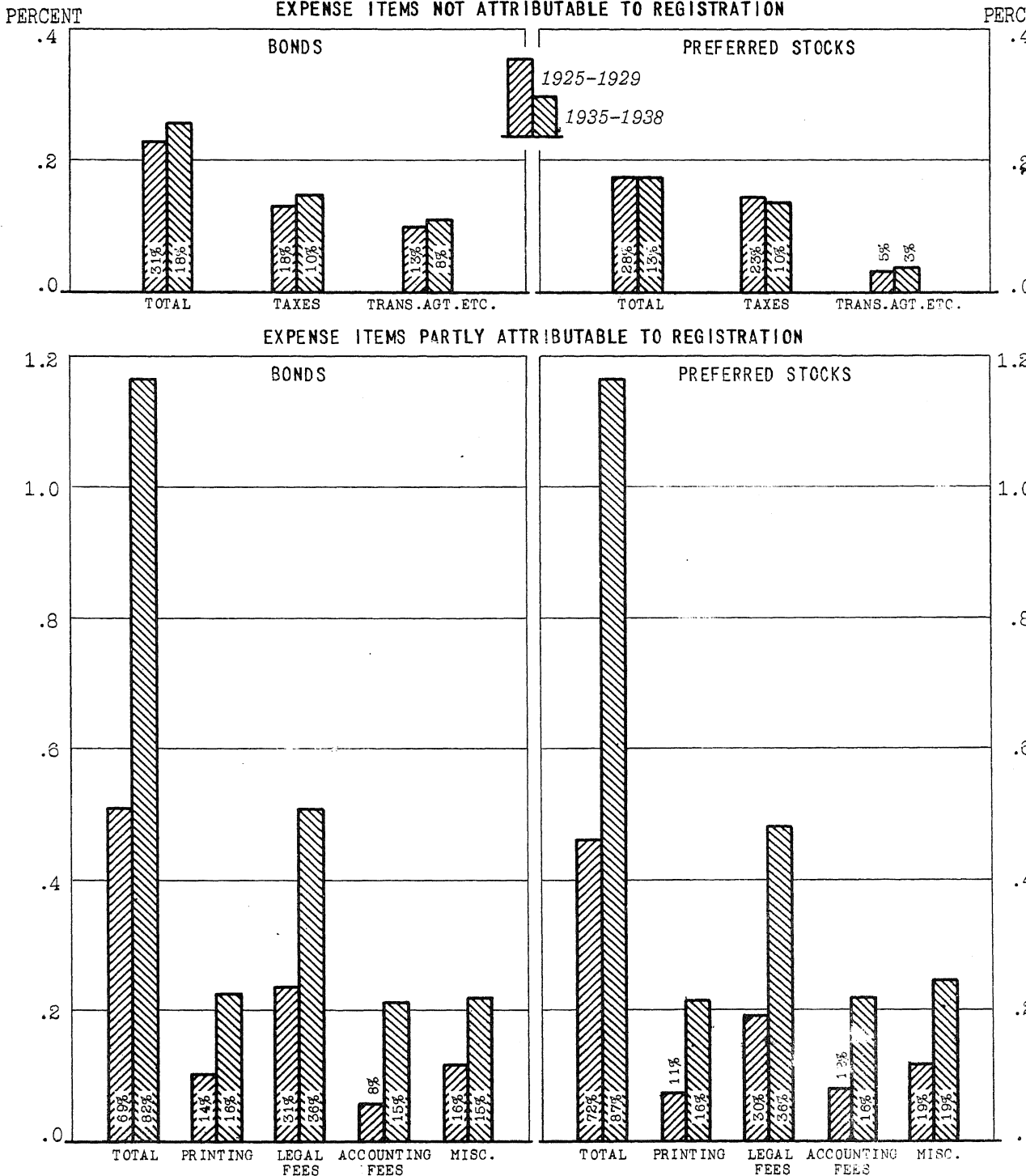
A further breakdown of individual expense items according to issue size reveals that the increase in expenses partly attributable to registration was not substantially greater for issues of under \$1,000,000 than for issues of from \$1,000,000 to \$5,000,000 (Table 16).

1/ Coverage for the analysis of individual expense items is not complete inasmuch as the breakdown of other expenses was not available for a sufficient number of cases. The data for bond issues include 294 cases with gross proceeds of \$531,426,000 in the 1925-1929 period and 197 cases with gross proceeds of \$283,514,000 in the 1935-1938 period. The data for preferred stock issues include 48 cases with gross proceeds of \$85,490,000 in the 1925-1929 period and 183 cases with gross proceeds of \$175,141,000 in the 1935-1938 period. Despite this incomplete coverage for the breakdown of other expenses, it may be noted that these showed virtually the same total other expenses, relative to gross proceeds, in both periods.

CHART 6

COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS
OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

BREAKDOWN OF "OTHER EXPENSES"



IV. TECHNICAL EXPLANATION OF DATA AND METHODS

Sources and Limitations of Data

The data on cost of flotation for issues of less than \$5,000,000 for the period 1935-1938 were obtained from the registration statements filed under the Securities Act of 1933. Similar data for the period 1925-1929 were procured from questionnaires returned by companies which floated small issues during that period. In order to have comparable information on costs for the two periods, questionnaires for the earlier period were sent only to the same type of company that is required to register under the Securities Act. In addition, there were other limitations in the selection of issues in both periods, such as the method of distribution and type of transaction, which are described in the following paragraphs.

Because railroad securities, religious, educational, charitable, bank and trust company issues are specifically exempt from the provisions of the Securities Act, questionnaires for the 1925-1929 period were not addressed to such issuers. Other types of companies excluded from the study, although requiring registration, were investment, real estate and mortgage companies. Investment companies were omitted because of the special nature of the distribution methods and because the Commission had already covered three of the five years 1925-1929 in its Investment Trust Study. Real estate and mortgage issues, which were issued in large volume during 1925-1929, were discarded because only a small number of companies in those fields have floated issues in recent years on which to base a comparison. Thus, it will be seen that a study of the two periods was largely confined to two categories: public utility and industrial.

The study was restricted to issues sold, or proposed to be sold, for cash to the public through the ordinary investment banking channels. Thus, issues sold, or intended to be sold directly by a company were omitted. Also excluded were securities offered privately, intercorporate transactions, issues sold through customer-ownership plans, and sales to employees or to pension funds. Securities offered in units of more than one type of security bonds, preferred stock, and common stock--where classification of cost by each of these types was impossible, were also discarded. Because of the involved nature of distributing costs for issues offered to security holders, it was decided to omit such offerings as presenting too many difficulties to be covered adequately in a simple questionnaire form. Secondary distributions (any issues sold for the account of any person other than the issuer, such as officers, directors and large stockholders) and exchange transactions were, of course, excluded.

To collect data on cost of financing for the period January 1, 1925 to December 31, 1929, letters were addressed to approximately 2,300 issuers of securities of less than \$5,000,000 gross proceeds.^{1/} Names of these

^{1/} Gross proceeds in the case of bonds represent principal amount.

issuers were obtained from lists of security offerings appearing in the Commercial and Financial Chronicle. Letters were sent only to those companies where it was indicated in the Chronicle that an investment house had participated in the distribution of the security, either in the capacity of underwriter or agent.

The questionnaire which accompanied the letter requested the following more important items of information with respect to each offering: (a) type of security, (b) estimated gross proceeds, (c) commission or discount (that is, compensation to underwriters or agents), (d) method of offering, (e) total other expenses of flotation, and (f) a breakdown of the total other expenses.

Many questionnaires were not returned because the issuing company had gone out of business or had incomplete files. A large number of the approximately 1,100 questionnaires returned involved secondary distribution, intercorporate transactions and private offerings, all of which were discarded. A substantial number of incomplete questionnaires were also returned, including 80 questionnaires covering common stock issues. This left only 30 complete questionnaires on common stock issues, which were few in number for statistical analysis and accordingly were excluded. Together, only 519 cases consisting of 423 bond and 96 preferred stock issues were included in the statistical tabulations for the 1925-1929 period.

Comparable data for registered issues floated from 1935-1938 were obtained from the registration statements filed with the Commission and represent registrants' intentions and estimates as they appear in the registration statement on the effective date. A total of 416 cases comprised of 210 bond and 206 preferred stock flotations were included in the 1935-1938 period.

The compilations for cost of flotation by size of issue, by industry, and by method of offering were based on the total number of cases for each period. As explained in the text, a somewhat reduced number of cases was used in the remaining tabulations, namely those by size of issuer, by yield and breakdown of other expenses. However, the resulting total cost percentages were affected only to a negligible extent by this restriction in coverage.

In order that the averages mentioned in the text and presented in accompanying tables may be interpreted correctly, certain limitations in the original data should be emphasized.

The data for the 1925-1929 study were based on companies the securities of which were listed in the Commercial and Financial Chronicle. It is, therefore, likely that many small, locally-issued securities were omitted because of the lack of publicity in the New York market. Another drawback in procuring data for the earlier period was that after a period of from 10 to 15 years, the records of many companies, especially small ones, had been destroyed, the management had changed, or the business had become defunct. That the smaller companies are most likely to be affected by these changes and to have incomplete files, may largely explain the predominance of comparatively larger sized companies in the 1925-1929

CHART 7

**COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS
OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938**

PERCENT OF
NO. OF ISSUES

FREQUENCY DISTRIBUTION OF BONDS AND PREFERRED STOCKS

TOTAL COST

PERCENT
NO. OF

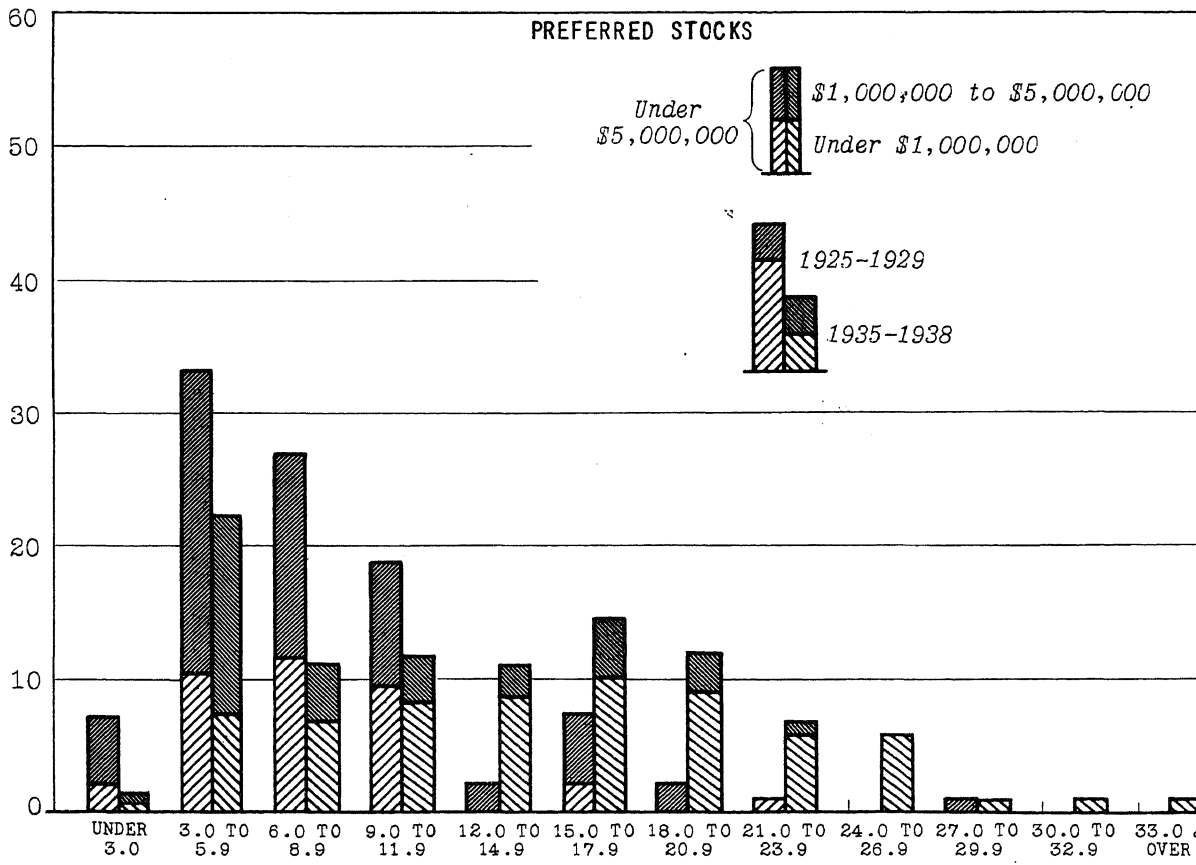
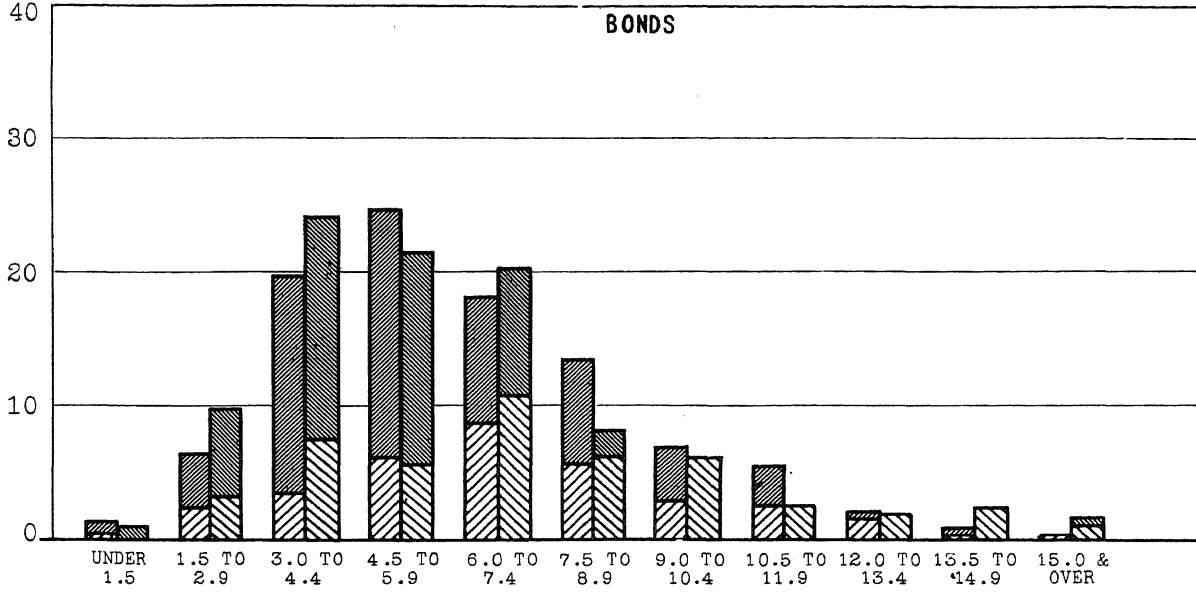


CHART 8

COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS
OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

FREQUENCY DISTRIBUTION OF BONDS AND PREFERRED STOCKS

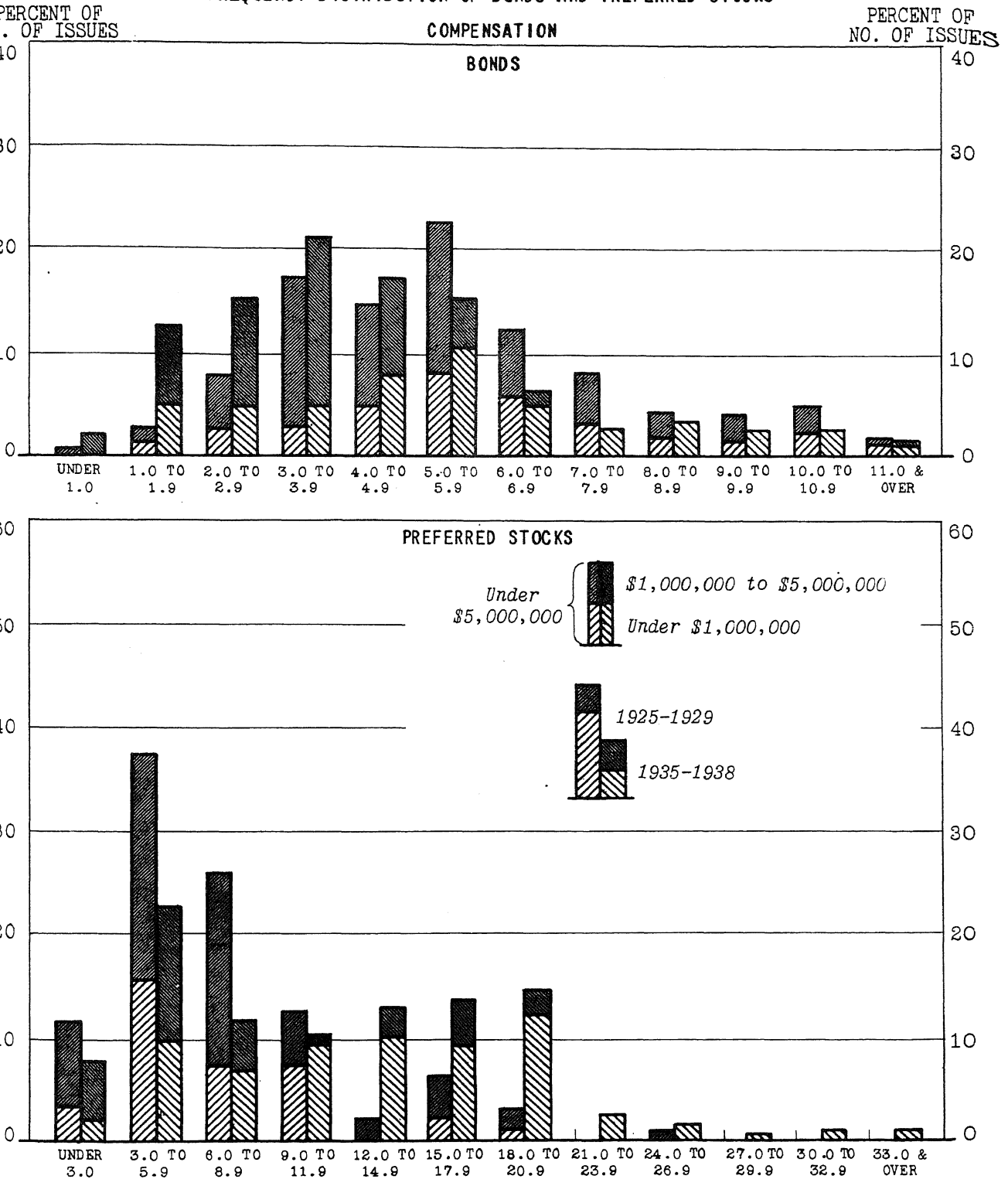
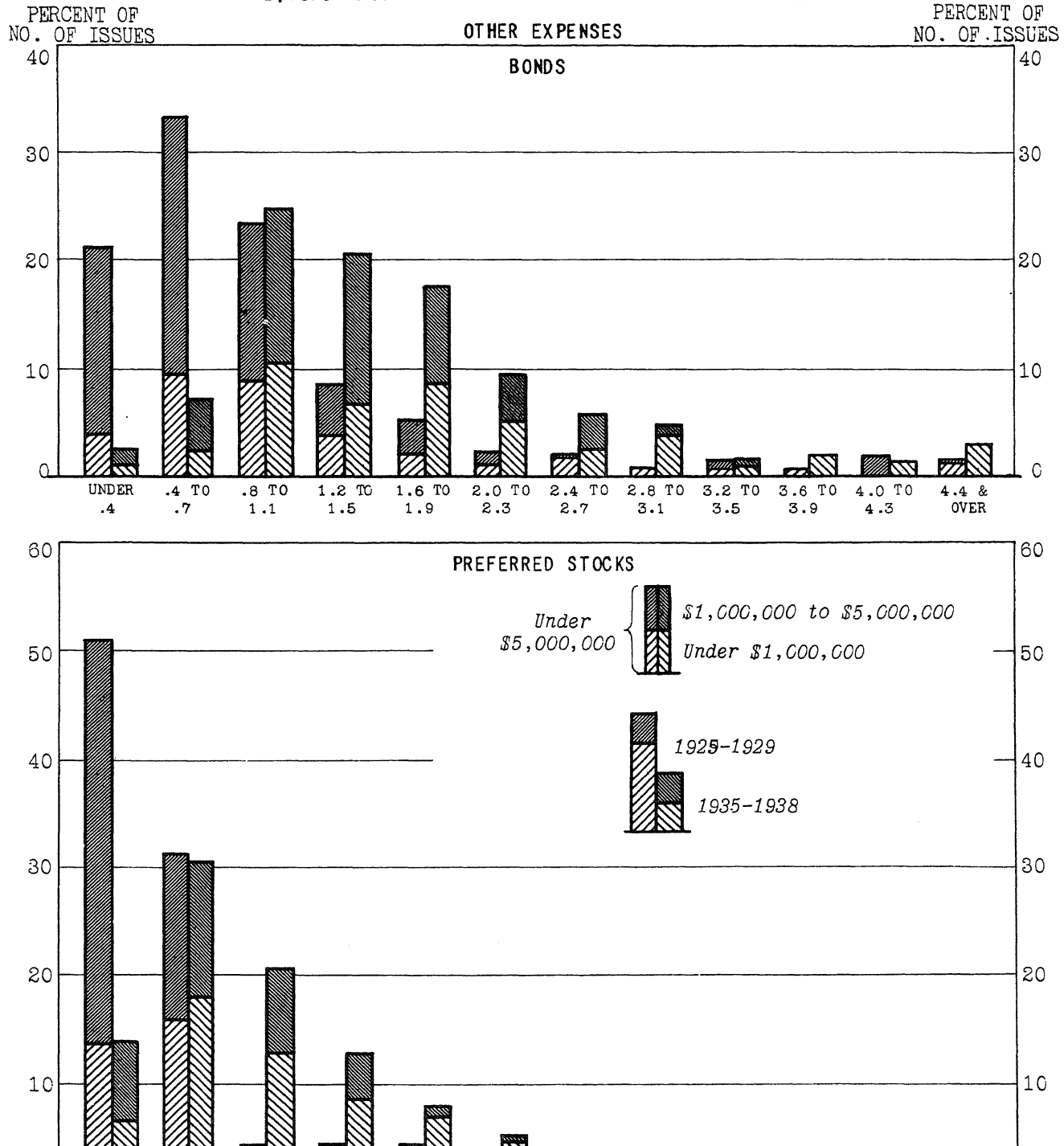


CHART 9

**COST OF FLOTATION IN PERCENT OF GROSS PROCEEDS
OF ISSUES LESS THAN \$5,000,000, 1925-1929 AND 1935-1938**

FREQUENCY DISTRIBUTION OF BONDS AND PREFERRED STOCKS



Gross proceeds for the 1925-1929 period are based on actual sales, as contrasted with proposed sales in the 1935-38 period. The effect of this distinction is limited, with few exceptions, to non-underwritten issues. With respect to "other expenses", it should be pointed out that the estimate obtained for the 1925-1929 period were based on actual experience, whereas for the 1935-1938 period the estimates were partially based on anticipated experience as reflected in registration statements. Furthermore, no attempt has been made to measure additional compensation to distributors such as bonuses and options, which probably were more common in the 1925-1929 period than in the later period.

Comparability between periods is affected by the varying proportions of dollar amounts of issues with respect to size of issue, industry, size of issuer, method of offering and yield. The data have, however, been presented separately for each of these factors.

B. *Statistical Aspects of Data*

The data for the 1935-1938 period may be considered reasonably complete since, with the exceptions noted previously, bond and preferred stock issues under \$5,000,000, sold or proposed to be sold to the public for cash through investment banking channels and subject to the Securities Act of 1933 were included. The data for the 1925-1929 period, on the other hand, are not complete, although undoubtedly covering a considerable portion of all cases. Other elements of non-comparability between the two periods have been discussed above.

The measure used throughout this study is that of cost (compensation, other expenses, or total cost of flotation) as a percent of gross proceeds. For any group of issues this measure was obtained by determining the relationship between aggregate cost and aggregate gross proceeds. This method of dividing aggregate cost by aggregate gross proceeds gives the same result which would have been obtained by the lengthier method of constructing an average of percentages weighted by gross proceeds.

This method, because of the system of weighting employed, does not lend itself readily to the application of statistical techniques designed to test the representative character of the average or the nature of the dispersion around the average. To determine to some extent the nature of the data, particularly as regards the representativeness of the average, frequency distributions of the individual percentages have been constructed, (Charts 7, 8 and 9), and certain statistical measures derived from the individual percentages are presented subsequently. This latter procedure introduces into the study a different concept, that of each issue as a unit, its cost as a percentage of gross proceeds having the same weight as any other issue regardless of its size.

Charts of the frequency distributions of the number of issues of bonds

of issues and periods, percentages rather than the actual number of issues have been used.

For bond issues the frequency distributions covering total costs in both periods showed marked regularity. 1/ For preferred stocks, on the other hand, the frequency distributions covering total cost were decidedly irregular.

The figures also indicate quite clearly that the results obtained using individual percentages confirmed the results secured through the use of weighted averages. In the frequency distributions for bond issues covering total cost it is shown that in the lower cost range, namely under \$100,000, frequencies were relatively greater for the 1935-1938 period than for the 1925-1929 period. However, in the higher cost range, the 1925-1929 period showed a greater relative number of frequencies. In other words, lower cost issues were relatively more numerous in the 1935-1938 period, thus confirming the previously observed tendency for average cost of issue of bond issues to decline from the early to the late period.

On the other hand, for preferred stock issues the proportional number of low cost issues was higher in the 1925-1929 period. It is particularly evident from the charts that the extremely high cost issues were restricted to those floated in the 1935-1938 period. Consequently, the analysis of individual issues substantiates the rise in the level of cost previously indicated by the weighted averages for preferred stock issues from the early to the late period.

A further test of the results shown by the weighted averages may be made by comparing the medians of the individual percentages as well as the range of the middle 50 percent of the cases with the weighted averages used in the main text analysis. 2/ Such a comparison for issues of under \$1,000,000 and for issues of from \$1,000,000 to \$5,000,000 is presented below:

1/ Most of the distributions are at least slightly skewed in the direction of higher costs.

2/ The medians and the ranges of the middle 50 percent of the cases were read from cumulative frequency graphs.

BONDS

(In Percent of Gross Proceeds)

Weighted Average Median Range of Middle 50% of Cases

Total Cost

Issues under \$1,000,000

1925-1929	6.9	6.8	5.0 - 8.6
1935-1938	7.0	6.9	4.8 - 9.4

Issues between \$1,000,000 and \$5,000,000

1925-1929	5.9	5.4	4.0 - 7.5
1935-1938	4.5	4.7	3.5 - 5.9

Compensation

Issues under \$1,000,000

1925-1929	5.7	5.7	4.5 - 7.2
1935-1938	5.0	5.2	3.5 - 6.8

Issues between \$1,000,000 and \$5,000,000

1925-1929	5.2	5.1	3.6 - 6.5
1935-1938	3.2	3.3	2.4 - 4.3

Other Expenses

Issues under \$1,000,000

1925-1929	1.2	0.9	0.6 - 1.5
1935-1938	2.0	1.7	1.1 - 2.6

Issues between \$1,000,000 and \$5,000,000

1925-1929	0.7	0.7	0.4 - 1.0
1935-1938	1.3	1.3	1.0 - 1.8

PREFERRED STOCKS

(In Percent of Gross Proceeds)

	<u>Weighted Average</u>	<u>Median</u>	<u>Range of Middle 50% of</u>
<u>Total Cost</u>			
Issues under \$1,000,000			
1925-1929	8.3	7.5	5.3 - 10.5
1935-1938	14.8	15.5	10.0 - 20.6
Issues between \$1,000,000 and \$5,000,000			
1925-1929	7.7	6.6	4.7 - 9.9
1935-1938	8.2	8.6	4.5 - 13.3
<u>Compensation</u>			
Issues under \$1,000,000			
1925-1929	7.5	6.0	4.6 - 9.3
1935-1938	13.0	13.8	8.3 - 20.0
Issues between \$1,000,000 and \$5,000,000			
1925-1929	7.0	6.3	4.5 - 9.2
1935-1938	7.1	5.3	3.2 - 13.3
<u>Other Expenses</u>			
Issues under \$1,000,000			
1925-1929	0.8	0.6	0.3 - 1.0
1935-1938	1.8	1.6	0.9 - 2.7
Issues between \$1,000,000 and \$5,000,000			
1925-1929	0.7	0.4	0.2 - 0.8
1935-1938	1.1	1.1	0.7 - 1.6

For bonds, the weighted averages and the medians 1/ were fairly close for each group considered. For preferred stocks the weighted averages were generally higher than the medians. The relative changes in cost of flotation from the 1925-1929 period to the 1935-1938 period were very nearly the same, whether measured by weighted averages or by medians. Thus, measurements derived from individual percentages generally confirm the basic cost changes from period to period shown by the weighted averages, which have been used in this study.

1/ Since there is some evidence of inverse correlation between cost as a percent of gross proceeds and size of issue, there is a tendency for the weighted average to be lower than the median. On the other hand, since the distributions were usually skewed to some degree in the direction of higher costs, there is a tendency for the weighted average to be higher than the median. In the case of bonds, these opposing tendencies approximately offset each other, with the result that the two measures were very nearly the same. For preferred stocks, reflecting the influence of skewness, the weighted average was generally somewhat higher than the median.

TABLE 1

COST OF FIDTATION FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Year of Offering

(Percent of Gross Proceeds)

Year	Bonds			Preferred Stock		
	Total Cost	Compensa- tion	Other Expenses	Total Cost	Compensa- tion	Other Expenses
1925 - 1929						
1925	6.2	5.4	0.8	6.9	6.4	0.5
1926	6.1	5.4	0.7	7.4	6.8	0.6
1927	6.0	5.2	0.8	7.1	6.6	0.5
1928	5.6	4.8	0.8	8.8	7.6	1.2
1929	6.1	5.3	0.8	8.6	8.3	0.3
1925-1929	6.0	5.2	0.8	7.8	7.1	0.7
1935 - 1938						
1935	5.2	3.7	1.5	11.0	9.3	1.7
1936	4.7	3.4	1.3	9.2	8.0	1.2
1937	5.0	3.5	1.5	10.9	9.5	1.4
1938	4.0	2.5	1.5	10.4	9.1	1.3
1935-1938	4.8	3.4	1.4	10.2	8.9	1.3

TABLE 2

NUMBER OF CASES AND GROSS PROCEEDS FOR WHICH COST OF FLOTATION IS AVAILABLE
FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Year of Offering

Year	Bonds			Preferred Stock	
	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)	Number of Cases	Gross Proceeds (\$000)
1925 - 1929					
1925	95	179,021	6.2	15	16,719
1926	104	161,768	6.1	21	30,646
1927	119	220,320	6.0	29	39,154
1928	85	165,854	5.6	22	39,025
1929	20	39,108	6.1	9	15,523
1925-1929	423	766,071	6.0	96	141,067
1935 - 1938					
1935	42	64,688	5.2	21	16,465
1936	91	127,116	4.7	78	77,053
1937	60	80,107	5.0	83	82,606
1938	17	25,001	4.0	24	22,963
1935-1938	210	296,912	4.8	206	199,087

TABLE 3

COST OF FLOTATION FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Size of Issue

(Percent of Gross Proceeds)

Size of Issue (\$000)	1925 - 1929			1935 - 1938		
	Total Cost	Compensa- tion	Other Expenses	Total Cost	Compensa- tion	Other Expenses
	Bonds					
Under 250	6.8	5.6	1.2	8.4	6.0	2.4
250 - 499	7.5	6.3	1.2	7.5	5.5	2.0
500 - 749	7.3	5.8	1.5	6.6	4.5	2.1
750 - 999	6.4	5.4	1.0	6.5	4.7	1.8
Under 1,000	6.9	5.7	1.2	7.0	5.0	2.0
1,000 - 1,999	5.7	4.9	0.8	5.0	3.5	1.5
2,000 - 2,999	6.1	5.4	0.7	4.8	3.3	1.5
3,000 - 3,999	6.2	5.5	0.7	3.6	2.5	1.1
4,000 - 4,999	5.5	4.9	0.6	4.2	3.0	1.2
1,000 - 4,999	5.9	5.2	0.7	4.5	3.2	1.3
Under 5,000	6.0	5.2	0.8	4.8	3.4	1.4
	Preferred Stock					
Under 250	6.0	5.3	0.7	16.4	13.9	2.5
250 - 499	7.9	6.9	1.0	16.4	14.3	2.1
500 - 749	9.0	8.1	0.9	14.0	12.4	1.6
750 - 999	7.7	7.3	0.4	14.0	12.2	1.8
Under 1,000	8.3	7.5	0.8	14.8	13.0	1.8
1,000 - 1,999	8.8	8.0	0.8	10.0	8.7	1.3
2,000 - 2,999	8.5	7.7	0.8	7.5	6.5	1.0
3,000 - 3,999	5.0	4.8	0.2	7.0	6.1	0.9
4,000 - 4,999	4.4	4.2	0.2	6.0	5.3	0.7
1,000 - 4,999	7.7	7.0	0.7	8.2	7.1	1.1
Under 5,000	7.8	7.1	0.7	10.2	8.9	1.3

TABLE 4

NUMBER OF CASES AND GROSS PROCEEDS FOR WHICH COST OF PROMOTION IS AVAILABLE
FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1930-1931

By Size of Issue

(Percent of Gross Proceeds)

Size of Issue (\$1000)	1925 - 1929			1930 - 1931		
	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)
Common Stock						
Under 250	24	4,081	6.8	25	4,089	6.8
250 - 499	42	15,555	7.6	31	15,515	7.6
500 - 749	31	19,155	7.5	23	12,705	7.5
750 - 999	45	40,615	3.9	15	14,825	3.9
Under 1,000	142	79,356	6.9	100	44,639	6.9
1,000 - 1,999	113	174,244	7.1	52	69,247	7.1
2,000 - 2,999	92	229,199	7.1	29	68,353	7.1
3,000 - 3,999	37	129,785	6.2	13	44,065	6.2
4,000 - 4,999	34	153,707	5.5	16	70,028	5.5
1,000 - 4,999	281	686,915	5.9	110	252,216	5.9
Under 5,000	423	766,071	6.0	210	296,912	6.0
Preferred Stock						
Under 250	6	817	6.0	36	6,244	6.0
250 - 499	12	3,917	7.9	45	15,016	7.9
500 - 749	13	7,498	9.0	33	19,231	9.0
750 - 999	4	3,835	7.7	21	17,890	7.7
Under 1,000	35	16,067	8.3	135	58,381	8.3
1,000 - 1,999	31	42,532	8.8	47	63,124	8.8
2,000 - 2,999	22	52,557	8.5	10	23,276	8.5
3,000 - 3,999	5	17,128	5.0	8	28,005	5.0
4,000 - 4,999	3	12,783	4.4	6	26,301	4.4
1,000 - 4,999	61	125,000	7.7	71	140,706	7.7
Under 5,000	96	141,067	7.8	206	199,087	7.8

TABLE 5

COST OF FLOTATION FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Size of Issuer

(Percent of Gross Proceeds)

Size of Issuer (Assets in \$000)	1925 - 1929			1935 - 1938		
	Total Cost	Compensa- tion	Other Expenses	Total Cost	Compensa- tion	Other Expenses
Bonds						
Under 1,000	7.0	5.9	1.1	9.6	7.7	1.9
1,000 - 4,999	7.6	6.3	1.3	6.2	4.5	1.7
5,000 - 9,999	7.3	6.3	1.0	5.0	3.5	1.5
10,000 - 19,999	5.8	5.0	0.8	4.7	3.3	1.4
20,000 - 49,999	5.0	4.4	0.6	3.5	2.4	1.1
50,000 - 99,999	4.8	4.3	0.5	2.7	1.8	0.9
100,000 and over	4.6	4.3	0.3	2.9	1.9	1.0
All Bonds	6.0	5.2	0.8	4.8	3.4	1.4
Preferred Stock						
Under 1,000	14.9	13.7	1.2	15.9	14.6	1.3
1,000 - 4,999	12.3	11.3	1.0	13.5	12.0	1.5
5,000 - 9,999	9.5	8.1	1.4	5.8	4.4	1.4
10,000 - 19,999	6.4	5.9	0.5	6.2	5.0	1.2
20,000 - 49,999	5.5	5.2	0.3	4.2	3.1	1.1
50,000 - 99,999	5.5	5.1	0.4	3.9	3.4	0.5
100,000 and over	6.1	6.0	0.1	-	-	-
All Preferred Stocks	7.8	7.1	0.7	10.2	8.9	1.3

TABLE 6

NUMBER OF CASES AND GROSS PROCEEDS FOR WHICH COST OF FLOTATION IS AVAILABLE
FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Size of Issuer

(Percent of Gross Proceeds)

Size of Issuer (Assets in \$000)	1925-1929			1935-1938		
	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)	Number of Cases	Gross Proceeds (\$000)	Total Cost (%)
Bonds						
Under 1,000	15	5,036	7.0	26	8,304	7.0
1,000 - 4,999	97	83,880	7.6	80	65,501	7.6
5,000 - 9,999	94	165,061	7.3	41	75,938	7.3
10,000 - 19,999	59	138,815	5.8	28	61,801	5.8
20,000 - 49,999	90	204,204	5.0	26	60,444	5.0
50,000 - 99,999	27	82,091	4.8	7	20,136	4.8
100,000 and over	16	48,068	4.6	2	4,788	4.6
All Bonds	398 ^{1/}	727,155	6.0	210	296,912	6.0
Preferred Stock						
Under 1,000	2	571	14.9	69	41,274	14.9
1,000 - 4,999	29	28,279	12.3	83	65,972	12.3
5,000 - 9,999	15	24,615	9.5	15	18,227	9.5
10,000 - 19,999	11	21,963	6.4	18	32,957	6.4
20,000 - 49,999	22	40,218	5.5	16	28,333	5.5
50,000 - 99,999	12	17,031	5.5	5	12,324	5.5
100,000 and over	5	8,390	6.1	-	-	-
All Preferred Stocks	96	141,067	7.8	206	199,087	7.8

^{1/} Balance sheets were not available for 25 issuers, so that the number of cases included was reduced by that number; however, the total cost as a percent of gross proceeds was not affected.

TABLE 7

COST OF FLOTATION FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Industry

(Percent of Gross Proceeds)

Industry	1925 - 1929			1935 - 1938		
	Total Cost	Compensation	Other Expenses	Total Cost	Compensation	Other Expenses
Bonds						
Extractive	7.8	6.7	1.1	5.5	3.6	1.9
Manufacturing	6.6	5.6	1.0	5.6	4.0	1.6
Financial 1/	2.2	1.9	0.3	6.8	5.6	1.2
Merchandising	5.5	4.7	0.8	4.5	3.3	1.2
Transp. & Communi- cation	6.9	6.2	0.7	4.6	3.3	1.3
Utilities 2/	5.6	4.9	0.7	4.0	2.7	1.3
Others	6.2	5.4	0.8	6.0	4.5	1.5
All Bonds	6.0	5.2	0.8	4.8	3.4	1.4
Preferred Stock						
Extractive	28.3	24.2	4.1	13.5	11.9	1.6
Manufacturing	7.8	6.7	1.1	11.1	9.5	1.6
Financial 1/	-	-	-	11.6	10.9	0.7
Merchandising	9.3	8.4	0.9	7.5	6.1	1.4
Transp. & Communi- cation	6.9	6.5	0.4	7.4	5.9	1.5
Utilities 2/	6.3	6.0	0.3	4.3	3.4	0.9
Others	17.0	15.1	1.9	14.3	12.8	1.5
All Preferred Stocks	7.8	7.1	0.7	10.2	8.9	1.3

1/ Excludes investment companies.

2/ Includes electric light, power, heat, water and gas companies.

TABLE 8

NUMBER OF CASES AND GROSS PROCEEDS FOR WHICH COST OF FLOTATION IS AVAILABLE
FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Industry

Industry	1925 - 1929			1935 - 1938		
	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)	Number of Cases	Gross Proceeds (\$000)	T (
Bonds						
Extractive	10	24,236	7.8	5	6,217	
Manufacturing	115	176,680	6.6	80	101,410	
Financial 1/	4	4,824	2.2	12	10,905	
Merchandising	15	35,157	5.5	7	8,934	
Transp. and Communi- cation	39	55,550	6.9	30	49,514	
Utilities 2/	226	444,906	5.6	65	113,508	
Others	14	24,718	6.2	11	6,424	
All Bonds	423	766,071	6.0	210	296,912	
Preferred Stock						
Extractive	1	2,969	28.3	14	11,661	
Manufacturing	27	34,162	7.8	100	84,880	
Financial 1/	-	-	-	36	39,707	
Merchandising	10	19,124	9.3	26	27,190	
Transp. and Communi- cation	11	10,991	6.9	6	6,447	
Utilities 2/	45	71,171	6.3	16	20,597	
Others	2	2,650	17.0	8	8,605	
All Preferred Stocks	96	141,067	7.8	206	199,087	

1/ Excludes investment companies.

2/ Includes electric light, power, heat, water and gas companies.

TABLE 9

**COST OF FLOTATION FOR UTILITY AND OTHER THAN UTILITY BOND ISSUES OF LESS
THAN \$5,000,000, 1925-1929 AND 1935-1938**

By Size of Issue

(Percent of Gross Proceeds)

Size of Issue (\$000)	1925 - 1929			1935 - 1938		
	Total Cost	Compensa- tion	Other Expenses	Total Cost	Compensa- tion	Other Expenses
	Utilities					
Under 250	6.3	5.4	0.9	8.7	5.1	3.6
250 - 499	6.7	5.6	1.1	6.5	4.2	2.3
500 - 749	6.4	5.0	1.4	5.4	3.6	1.8
750 - 999	5.8	4.9	0.9	7.0	5.1	1.9
Under 1,000	6.2	5.1	1.1	6.5	4.5	2.0
1,000 - 1,999	5.4	4.7	0.7	3.9	2.5	1.4
2,000 - 2,999	5.4	4.8	0.6	3.6	2.3	1.3
3,000 - 3,999	6.3	5.6	0.7	3.3	2.4	0.9
4,000 - 4,999	5.0	4.4	0.6	3.8	2.6	1.2
1,000 - 4,999	5.5	4.9	0.6	3.6	2.5	1.1
Under 5,000	5.6	4.9	0.7	4.0	2.7	1.3
	Other Than Utilities					
Under 250	7.2	5.8	1.4	8.3	6.2	2.1
250 - 499	8.4	7.1	1.3	7.7	5.7	2.0
500 - 749	8.0	6.4	1.6	7.3	5.0	2.3
750 - 999	7.0	5.9	1.1	6.1	4.4	1.7
Under 1,000	7.6	6.3	1.3	7.2	5.2	2.0
1,000 - 1,999	6.1	5.1	1.0	5.5	4.0	1.5
2,000 - 2,999	7.4	6.4	1.0	5.2	3.7	1.5
3,000 - 3,999	5.7	5.0	0.7	4.3	2.7	1.6
4,000 - 4,999	6.0	5.4	0.6	4.5	3.4	1.1
1,000 - 4,999	6.4	5.5	0.9	5.0	3.6	1.4
Under 5,000	6.5	5.6	0.9	5.4	3.9	1.5

TABLE 10

COST OF FLOTATION FOR UTILITY AND OTHER THAN UTILITY PREFERRED STOCK
OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Size of Issue

(Percent of Gross Proceeds)

Size of Issue (\$000)	1925 - 1929			1935 - 1938		
	Total Cost	Compensa- tion	Other Expenses	Total Cost	Compensa- tion	
	Utilities					
Under 250	6.7	6.3	0.4	11.4	10.0	
250 - 499	8.2	7.6	0.6	5.9	4.2	
500 - 749	6.5	6.0	0.5	7.4	5.0	
750 - 999	7.7	7.3	0.4	9.2	7.5	
Under 1,000	7.5	7.0	0.5	7.6	5.8	
1,000 - 1,999	6.1	5.7	0.4	3.4	2.6	
2,000 - 2,999	7.5	7.2	0.3	-	-	
3,000 - 3,999	5.5	5.4	0.1	3.6	2.9	
4,000 - 4,999	3.2	3.1	0.1	3.7	3.0	
1,000 - 4,999	6.1	5.8	0.3	3.5	2.8	
Under 5,000	6.3	6.0	0.3	4.3	3.4	
	Other Than Utilities					
Under 250	5.1	4.1	1.0	16.5	13.9	
250 - 499	7.3	5.6	1.7	17.8	15.7	
500 - 749	10.1	9.0	1.1	14.2	12.7	
750 - 999	-	-	-	14.5	12.7	
Under 1,000	9.3	8.1	1.2	15.4	13.5	
1,000 - 1,999	10.5	9.4	1.1	11.0	9.6	
2,000 - 2,999	9.3	8.2	1.1	7.5	6.5	
3,000 - 3,999	3.1	2.5	0.6	7.5	6.5	
4,000 - 4,999	6.8	6.5	0.3	6.4	5.7	
1,000 - 4,999	9.3	8.3	1.0	8.8	7.7	
Under 5,000	9.3	8.2	1.1	10.9	9.5	

TABLE 11

COST OF FLOTATION FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Method of Offering

(Percent of Gross Proceeds)

Method of Offering	1925 - 1929			1935 - 1938		
	Total Cost	Compensation	Other Expenses	Total Cost	Compensation	Other Expenses
	Bonds					
Purchase Agreement	6.0	5.2	0.8	4.7	3.3	1.4
Agency and Option	5.8	5.0	0.8	7.6	6.1	1.5
Other	6.5	6.0	0.5	7.0	5.1	1.9
All Bonds	6.0	5.2	0.8	4.8	3.4	1.4
	Preferred Stock					
Purchase Agreement	9.1	8.3	0.8	8.1	6.7	1.4
Agency and Option	5.9	5.4	0.5	13.3	12.1	1.2
Other	4.1	3.7	0.4	13.7	12.3	1.4
All Preferred Stocks	7.8	7.1	0.7	10.2	8.9	1.3

TABLE 12

NUMBER OF CASES AND GROSS PROCEEDS FOR WHICH COST OF FLOTATION IS AVAILABLE
FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Method of Offering

Method of Offering	1925 - 1929			1935 - 1938		
	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)
	Bonds					
Purchase Agreement	345	642,075	6.0	179	278,343	4.7
Agency and Option	65	101,088	5.8	25	13,157	7.6
Other	13	22,908	6.5	6	5,412	7.0
All Bonds	423	766,071	6.0	210	296,912	4.8
	Preferred Stock					
Purchase Agreement	51	85,890	9.1	95	119,165	8.1
Agency and Option	41	48,044	5.9	99	67,344	13.3
Other	4	7,133	4.1	12	12,578	13.7
All Preferred Stock	96	141,067	7.8	206	199,087	10.2

TABLE 13

COST OF FLOTATION FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Yield

(Percent of Gross Proceeds)

Yield (Percent per Annum)	1925 - 1929			1935 - 1938		
	Total Cost	Compensa- tion	Other Expenses	Total Cost	Compensa- tion	Other Expenses
Yield to Maturity	Bonds					
2.0 - 2.9	-	-	-	3.5	1.8	1.7
3.0 - 3.9	-	-	-	3.7	2.4	1.3
4.0 - 4.9	3.9	3.3	0.6	4.6	3.2	1.4
5.0 - 5.9	5.4	4.7	0.7	6.8	5.0	1.8
6.0 - 6.9	7.6	6.6	1.0	11.2	8.9	2.3
7.0 - 7.9	8.9	7.7	1.2	20.6	20.0	0.6
8.0 - 8.9	10.5	10.0	0.5	-	-	-
All Bonds <u>1/</u>	6.1	5.3	0.8	5.1	3.6	1.5
Current Yield	Preferred Stock					
3.0 - 3.9	-	-	-	8.8	8.4	0.4
4.0 - 4.9	-	-	-	6.0	4.9	1.1
5.0 - 5.9	5.7	5.2	0.5	8.7	7.4	1.3
6.0 - 6.9	7.0	6.5	0.5	14.5	12.7	1.8
7.0 - 7.9	8.1	7.3	0.8	17.7	16.0	1.7
8.0 - 8.9	21.6	19.0	2.6	20.8	18.6	2.2
9.0 - 9.9	9.6	9.1	0.5	-	-	-
10.0 - 10.9	-	-	-	17.2	15.0	2.2
All Preferred Stocks <u>2/</u>	7.8	7.1	0.7	9.8	8.5	1.3

1/ Bonds with serial maturities are excluded.2/ Preferred stocks with no stated dividend rates are excluded.

TABLE 14

NUMBER OF CASES AND GROSS PROCEEDS FOR WHICH COST OF FLOTATION IS AVAILABLE
FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938

By Yield

(Percent of Gross Proceeds)

Yield (Percent per Annum)	1925 - 1929			1935 - 1938		
	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)	Number of Cases	Gross Proceeds (\$000)	Total Cost (% of Gross Proceeds)
Yield to Maturity	Bonds					
2.0 - 2.9	-	---	--	1	2,080	3.5
3.0 - 3.9	-	---	--	26	50,631	3.7
4.0 - 4.9	30	61,905	3.9	71	131,297	4.6
5.0 - 5.9	194	383,107	5.4	58	52,545	6.8
6.0 - 6.9	128	223,076	7.6	11	3,808	11.2
7.0 - 7.9	17	31,340	8.9	1	1,000	20.6
8.0 - 8.9	1	2,000	10.5	-	---	--
All Bonds <u>1/</u>	370	701,428	6.1	168	241,361	5.0
Current Yield	Preferred Stock					
3.0 - 3.9	-	---	--	3	7,122	8.0
4.0 - 4.9	-	---	--	27	46,400	6.0
5.0 - 5.9	10	18,601	5.7	71	86,054	8.0
6.0 - 6.9	49	82,838	7.0	66	39,778	14.0
7.0 - 7.9	30	29,210	8.1	23	9,237	17.0
8.0 - 8.9	4	6,869	21.6	5	1,552	20.0
9.0 - 9.9	1	550	9.6	-	---	--
10.0 - 10.9	-	---	--	1	544	17.0
All Preferred Stocks <u>2/</u>	94	138,068	7.8	196	190,687	9.0

1/ Bonds with serial maturities are excluded.

2/ Preferred stocks with no stated dividend rates are excluded.

TABLE 15

COST OF FLOTATION FOR ISSUES OF LESS THAN \$5,000,000, 1925-1929 AND 1935-1938 1/

Breakdown of Other Expenses

(Percent of Gross Proceeds)

Breakdown of Other Expenses	Bonds		Preferred Stock	
	1925-1929	1935-1938	1925-1929	1935-1938
Expenses not attributable to registration:				
Taxes, fees paid to Govt. bodies, etc.	0.132	0.148	0.144	0.139
Transfer agent, trustees, etc.	0.099	0.111	0.031	0.036
Total	0.231	0.259	0.175	0.175
Expenses partly attributable to registration:				
Printing, engraving, etc.	0.102	0.225	0.072	0.215
Legal fees	0.234	0.510	0.193	0.482
Accounting fees	0.058	0.212	0.079	0.220
Miscellaneous <u>2/</u>	0.116	0.218	0.117	0.247
Total	0.510	1.165	0.461	1.164
Total other expenses	0.741	1.424	0.636	1.339
Number of cases	294	197	48	183
Gross proceeds (\$000)	531,426	283,514	85,490	175,141

1/ Although a breakdown of "other expenses" was not available for all issues covered, the total percentage figures differ only slightly from those shown for all issues.

2/ Registration fees payable to the Securities and Exchange Commission, which aggregate approximately 0.01 percent are included in "miscellaneous expenses".